GDC HOLDINGS

Global Digital Creations Holdings Limited

環 球 數 碼 創 意 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 8271)

ANNUAL REPORT 2007

*For identification purpose only

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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.

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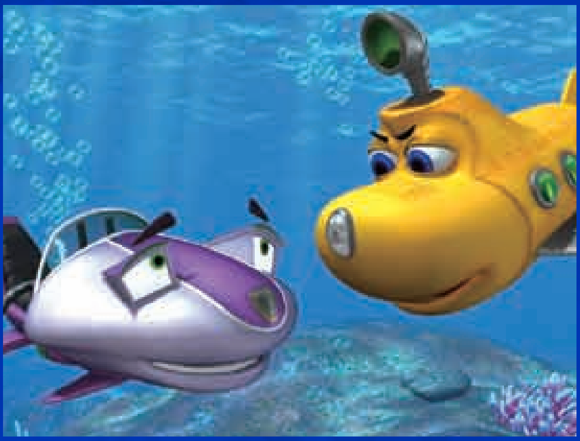
This report, for which the directors (the "Directors") of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM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

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.**

Corporate Information

BOARD OF DIRECTORS

Cao Zhong *(Chairman)*
Chen Zheng *(Managing Director)*
Jin Guo Ping *(Deputy Managing Director)*
Lu Yi, Gloria *(Deputy Managing Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Kwong Che Keung, Gordon
(Independent Non-executive Director)
Bu Fan Xiao
(Independent Non-executive Director)
Hui Hung, Stephen
(Independent Non-executive Director)

EXECUTIVE COMMITTEE

Cao Zhong *(Chairman)*
Chen Zheng
Jin Guo Ping
Lu Yi, Gloria

AUDIT COMMITTEE

Kwong Che Keung, Gordon *(Chairman)*
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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Cheng Man Ching

QUALIFIED ACCOUNTANT

Chiu Ming Kin

COMPLIANCE OFFICER

Chen Zheng

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL REGISTRARS

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Rooms 1101-4, 11th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

8271

WEBSITE

www.gdc-world.com

Directors' Biography

Mr. Cao Zhong, aged 48, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Joint Chairman of the Company in February 2005 and is currently the Chairman of the Company. He was appointed the Vice Chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand"), the substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), in November 2001 and has acted concurrently as the Managing Director of Shougang Grand since February 2006. Mr. Cao was also appointed the Deputy Chairman and General Manager of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), the substantial shareholder of the Company within the meaning of Part XV of the SFO, the Managing Director of Shougang Concord International Enterprises Company Limited ("Shougang International"), the Chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology") and Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. He was appointed an Executive Director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the Chairman of APAC in May 2007. He was also appoint a Director of each of Wheeling Holdings Limited, SCG Investment (BVI) Limited, Grand Phoenix Limited and Upper Nice Assets Ltd., all being substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Cao acts as the Assistant General Manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and the Chairman of China Shougang International Trade and Engineering Corporation. He has extensive experience in corporate management and operation.

Mr. Chen Zheng, aged 48, engineer and senior economist. He holds a bachelor degree in chemical engineering and a master degree in business administration. Mr. Chen was appointed an Executive Director of the Company in February 2005 and is currently the Managing Director of the Company. Mr. Chen was also appointed an Executive Director of Shougang Grand in January 2004 and was designated as the Managing Director of Operations of Shougang Grand in February 2006. He was also appointed a Director of each of SCG Investment (BVI) Limited, Grand Phoenix Limited and Upper Nice Assets Ltd., all being substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Chen has extensive experience in investing business and corporate management.

Mr. Jin Guo Ping, aged 49, senior economist. He holds a master of business administration degree of China Europe International Business School. Mr. Jin was appointed the Vice President and Executive Director of the Company in February 2006 and is currently the Deputy Managing Director of the Company. He is an ordinary committee member of China Animation Association and vice president of Shanghai Film Association. He is also a visiting professor in Animation School of Beijing Film Academy, a counselor of each of Animation School of Jinlin College of the Arts and Korea Animation Producers Association. Mr. Jin was a director of Shanghai Animation Film Studio, the chairman of Shanghai Yilimei Animation Company Limited, the chairman of Shanghai Cartoon Cultural Developing Co. Ltd., a publisher of "Cartoon King" Magazine, the vice president of Shanghai Film Group Corporation, the vice chairman of Shanghai United Circuit Co., Ltd, a director of Shanghai Paradise Corporation Ltd, the general manager of Shanghai Animation Film & TV (Group) Corporation and the assistant director of broadcasting of Shanghai Television. Mr. Jin has extensive experience in animation and film industries.

Directors' Biography

Ms. Lu Yi, Gloria, aged 37, a chartered financial analyst. Ms. Lu was appointed the Deputy Managing Director of the Company in September 2007. She was a senior management of Deutsche Securities Asia Limited, a wholly-owned subsidiary of Deutsche Bank AG.

Mr. Leung Shun Sang, Tony, aged 65. Mr. Leung was appointed a Non-executive Director of the Company in December 2005 and a Non-executive Director of Shougang Grand in July 1995. He is also a Director of each of Shougang International, Shougang Technology and Shougang Century. Mr. Leung holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management. He is the managing director of CEF Group.

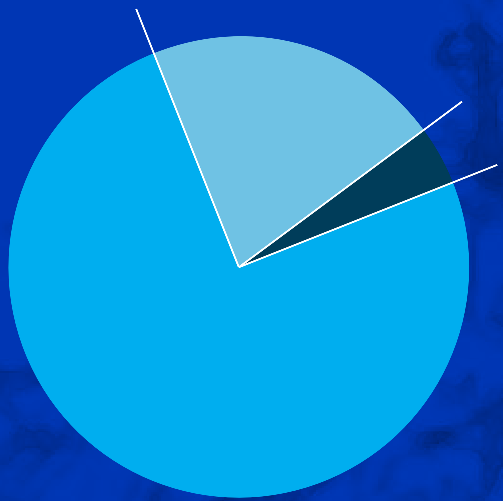
Mr. Kwong Che Keung, Gordon, aged 58, graduated from the University of Hong Kong in 1972 and qualified as a Chartered Accountant in England and Wales in 1977. Mr. Kwong was appointed an Independent Non-executive Director of the Company in April 2003. Mr. Kwong was a partner of PriceWaterhouse Hong Kong 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 of Hong Kong Limited (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. Mr. Kwong also serves as an independent non-executive director of a number of Hong Kong listed companies, 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, China Power International Development Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Agile Property Holdings Limited and CITIC 1616 Holdings Limited.

Professor Bu Fan Xiao, aged 62, graduated from Zhejiang University in 1982 majored in chemical engineering with automation concentration. Professor Bu was appointed an Independent Non-executive Director of the Company in May 2005. He was the vice chancellor of Zhejiang University and is currently the chairman of Zhejiang University Qware Technology Group Co., Ltd. Professor Bu has over 20 years of experience in administrative management.

Mr. Hui Hung, Stephen, aged 50. Mr. Hui was appointed an Independent Non-executive Director of the Company in February 2006. He was also an Independent Non-executive Director of each of Shougang Century and Shougang Grand. Mr. Hui is the managing director of Federal Glory International Limited and Eastern Gain International Limited. Prior to joining the Company, he 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 and an independent non-executive director of each of The Quaypoint Corporation Limited and Apex Capital Limited (formerly known as Haywood Investments Limited), Hong Kong listed companies. Mr. Hui graduated from Middlesex University in the United Kingdom in 1982 with a bachelor of arts degree in economics and geography and has been conferred a master of business administration in 2001 by the Barrington University of the United States. He has extensive experience in banking, investment and financing investment in Mainland China.

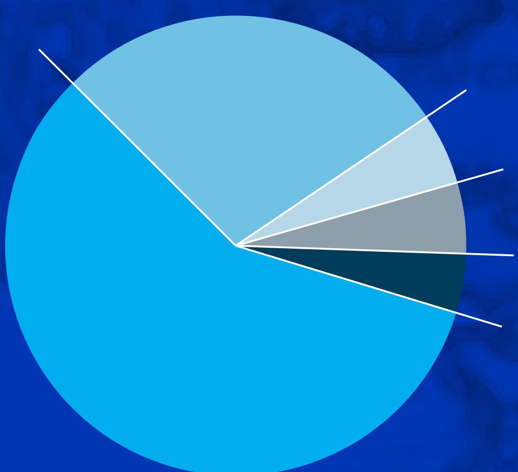
Financial Highlights

REVENUE BY PRINCIPAL ACTIVITY FOR THE YEAR 2007



- 75% Digital content distribution and exhibitions
- 21% CG creation and production
- 4% CG training courses

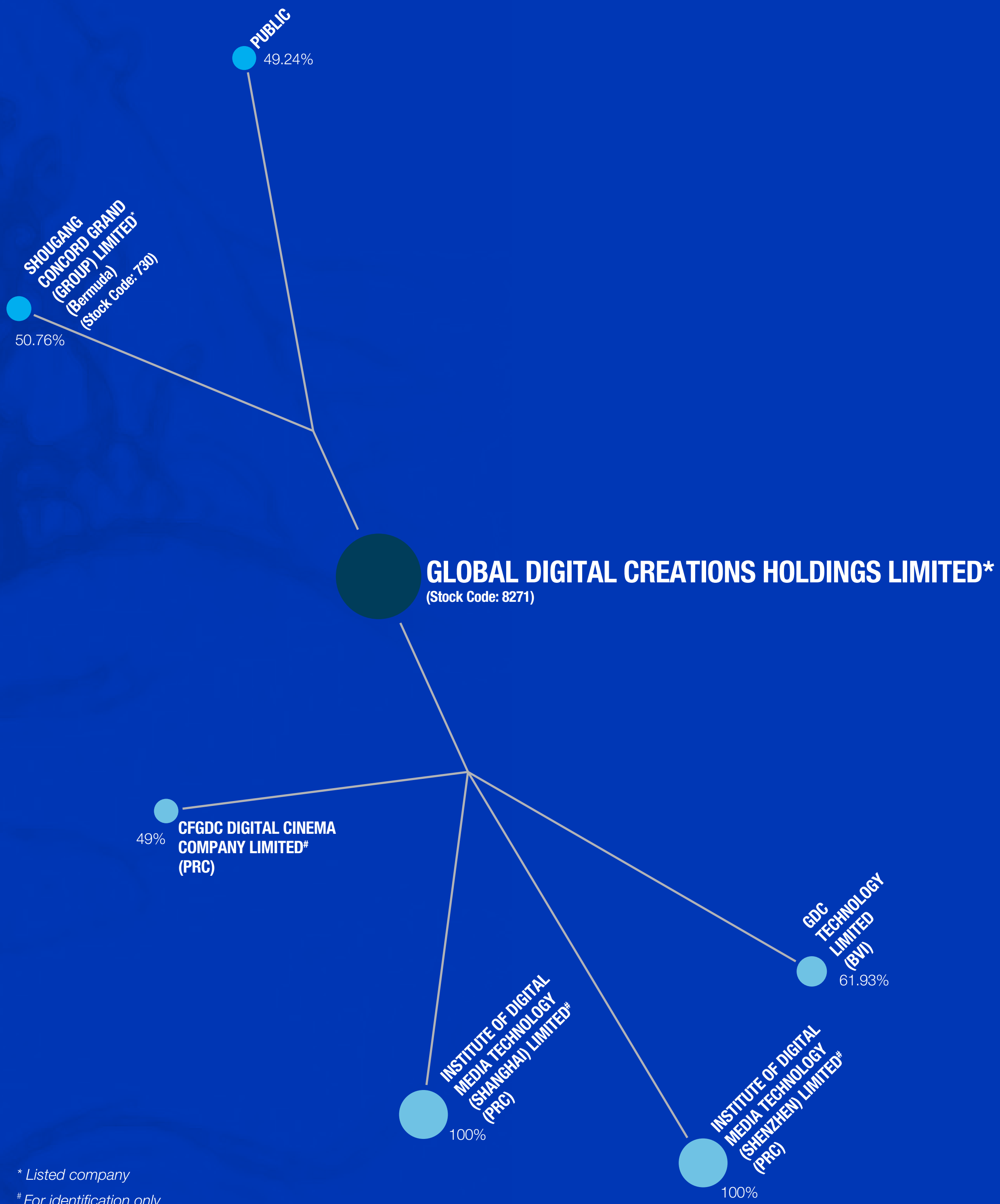
REVENUE BY GEOGRAPHICAL LOCATION FOR THE YEAR 2007



- 58% The People's Republic of China, for the purpose of this report, does not include Hong Kong, Macau and Taiwan
- 28% The United States
- 5% Europe
- 5% Middle-East
- 4% Others

Corporate Structure

As at 31 December 2007



* *Listed company*

\# *For identification only*

Awards and Citations

JANUARY, 2007

IDMT Shenzhen received the "Best Exhibitor Award" with its movie "Thru the Moebius Strip" at the 2nd China Cultural Expo

"Thru the Moebius Strip" received the "Best Creative Award" in the Digital Interactive Entertainment Industry Annual Selection 2006 of Shanghai Information Industry (Group) Cup

FEBRUARY, 2007

"Thru the Moebius Strip" received the "Best Theatrical Animation Award in China, Hong Kong and Macau" under the category of animations and comics for 2006 in the Original Animation and Comic Arts Competition of the 3rd Golden Dragon Award. Chen Ming received the "Best Animation Director Award" under the category of animations at the same ceremony with "The Legend of Shangri-la" featuring traditional Chinese culture

MARCH, 2007

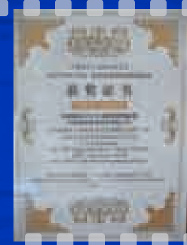
Full 3D CG film "Thru the Moebius Strip" received the "Most Influential Local Original Creation Award" again at the 3rd Annual YACA Animation and Comic Original Creation Award Presentation 2006

APRIL, 2007

Liang Jianbo, IDMT Shenzhen Staff, received the "Best Multi-Frame Comic Award" with "Steamed Bun and the Black Shark" under the professional category of "Handsome Monkey Award" Original Animation and Comic Contest in the 3rd China International Animation and Comic Festival

AUGUST, 2007

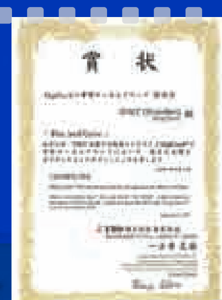
SA-2100 DSR™ Digital Film Server from GDC Technology receives the "BIRTV Award for Outstanding Product". The award further reaffirms GDC Technology's position in the highly-competitive digital cinema arena and our commitment in bringing the best multimedia experience to the masses with the best innovation and product



SEPTEMBER, 2007

IDMT Shenzhen's production "The Legend of Shangri-la" received the "Best Visual Effects Award" at the Asian Youth Animation and Comic Contest 2007

IDMT Shenzhen's production "Fox and Crow" was nominated for the "Encouragement Award" in the TBS Digicon 6+3 Contest (China Region) jointly held by the Cartoons Committee of China Television Artists Association and TBS of Japan



Awards and Citations

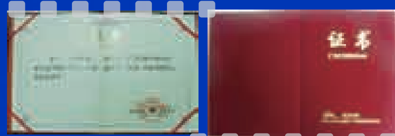
NOVEMBER, 2007

GDC was rated among the "China Top 100 in the Creative industry" in the China Creative Industry Annual Award 2007

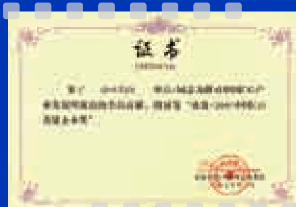
IDMT Shenzhen was rated as a "Key National Enterprise for Culture Export 2007-2008" by the Ministry of Commerce, the Ministry of Culture, the State Administration of Radio, Film and Television, and the General Administration of Press and Publication of the People's Republic of China, and successfully entered into "The Category of Key National Enterprises for Culture Export 2007-2008". Such recognition was jointly granted by the Ministry of Commerce, the Ministry of Culture, the State Administration of Radio, Film and Television, and the General Administration of Press and Publication of the People's Republic of China for the first time to 142 enterprises in the nation.

DECEMBER, 2007

IDMT Shenzhen received the "Chinese Blooming CG Hero Enterprise Award 2007" from CGW and China Visual

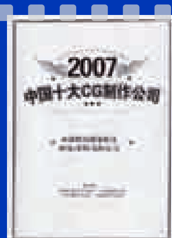


The training section of GDC received the title of the "Most Well-received Training Institute in the Prospering Chinese CG Industry in 2007" from CGW and China Visual



JANUARY, 2008

IDMT Shenzhen was rated the first place among "The Top Ten CG Production Companies in China in 2007" by CGM, Beijing Society of Image and Graphics, Beijing Multimedia Industry Association and Shanghai Multimedia Industry Association



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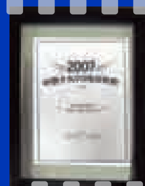
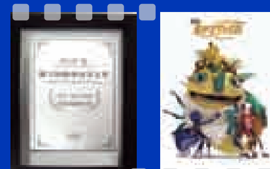
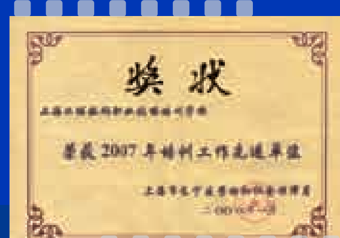


The student team of the 11th long-term course of the Shanghai Training Centre of GDC, with the original short animation "Spider", received the "Best Short Animation Award" under the category of arts in the Chinese Festival of CCGF Digital Graphics in the category of Short Animations Institutes, from CGM and China Animation Association



The training section of GDC received the title of an "Advanced Work Unit in Training for 2007" from the Labour and Social Security Bureau of Shanghai Changning District



CHAIRMAN'S STATEMENT

Through effective business development and strong execution, the Group achieved significant business growth and market recognition in the year 2007. During this year, we have again demonstrated our professional capabilities and dedications in each of our respective positions, and the synergetic results were apparent. The Board of Directors has been thoroughly engaged to guide and help us by continuously improving comprehensive management incentive share option schemes of the Group, restructuring, engaging investors, and establishing partnership between the Group and influential government media entities. Most significantly, the Group have cooperated with China Film Group Corporation ("CFGC") for the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan).

I'm pleased to report that the Group achieved a consolidated revenue of approximately HK$246.1 million for this year, which represented a growth of approximately 348% over that for the year 2006. Furthermore, all our three business divisions, digital content distribution and exhibitions, computer graphic ("CG") creation and production, and CG training, reported net profit for this year. It was the first time for all our divisions to have such achievement in our entire history. More significantly, the progress of the Group's operation and business expansion was well received by the investment community. During this year, the Company issued shares in accordance with one subscription agreement and three placing and subscription agreements to attract in total of approximately HK$471.2 million investment from prestigious investors. The market cap of the Group increased by above 10 times to approximately

Chairman's Statement

HK$2,201.9 million by end of this year, and the Group's net worth also turned from net liabilities in the year 2006 to net assets of approximately HK$435.2 million by the end of this year.

In digital content distribution and exhibitions division, revenue for this year amounted to approximately HK$183.9 million, which reported a hyper growth by approximately 11 times comparing with that for the year 2006, while the segment result for this year also improved from deficit of approximately HK$7.2 million for the year 2006 to profit of approximately HK$4.5 million for this year. This was the result of commencement of deployment of digital cinemas worldwide during this year, which has brought ample business opportunities to us, and our commitment to providing superior digital delivery and display solutions through research and development. Our aim is to best satisfy the customers' needs for digital delivery of multimedia information to all form of display technologies that enhance the multimedia experience, improve the multimedia communication and reduce the cost of bringing the best quality multimedia display to the audience.

Another monumental development is that we have commenced the roll out of digital cinema network in the PRC cooperated with CFGC, about 450 units of digital cinema equipment were purchased by the end of this year for installation to cinemas in all the 27 provinces in the PRC. With the continuing growth in the box office receipts in the PRC over the past five years and also expects in the future, our revenue from this project will increase accordingly. Besides, we, working with CFGC, have also explored the alternative revenue in addition to the share of box office.

After achieving the brand name recognition in the most competitive theatrical exhibition market, we have entered into the out-of-home digital advertisement market during this year by designing and manufacturing of digital signage servers for the delivery of high quality content, to out-of-home advertisement displays via cable or satellite network. We are focused on developing core technologies to produce cost-competitive and high quality solutions for the entertainment and advertising markets so as to make the experience more immersive and realistic.

In CG creation and production division, revenue and segment result for this year amounted to approximately HK$51.3 million and HK$17.5 million, respectively, which reported a respectively increase of approximately 69% and over 270 times comparing with that for the year 2006. Such significant improvement is mainly attributable to our expanding CG production service customer base worldwide, improving financial control, improving production efficiency, and enhancing service quality and reliability. Comparing with other CG service companies in Asia, it is unprecedented that we could achieve such financial milestone in less than three years since its initial focus on service business.

Chairman's Statement

Besides, we are recognised and considered "pre-proved" by several leading studios and distributors in Hollywood and Europe. All our customers who had risen funding for new projects had placed new service orders to us so far. Our progress in CG business is also recognised by the PRC government: (i) we were granted "Key National Enterprises for Cultural Export 2007-2008" jointly by four top Chinese government ministries; (ii) Shenzhen municipal government has approved the land use for us to construct one of the most modern digital entertainment production facilities in the PRC; and (iii) Chongqing municipal government has agreed to sponsor us to set up a new production studio in its high-tech park in the year 2008 to further increase our CG production capacity and lower unit production cost.

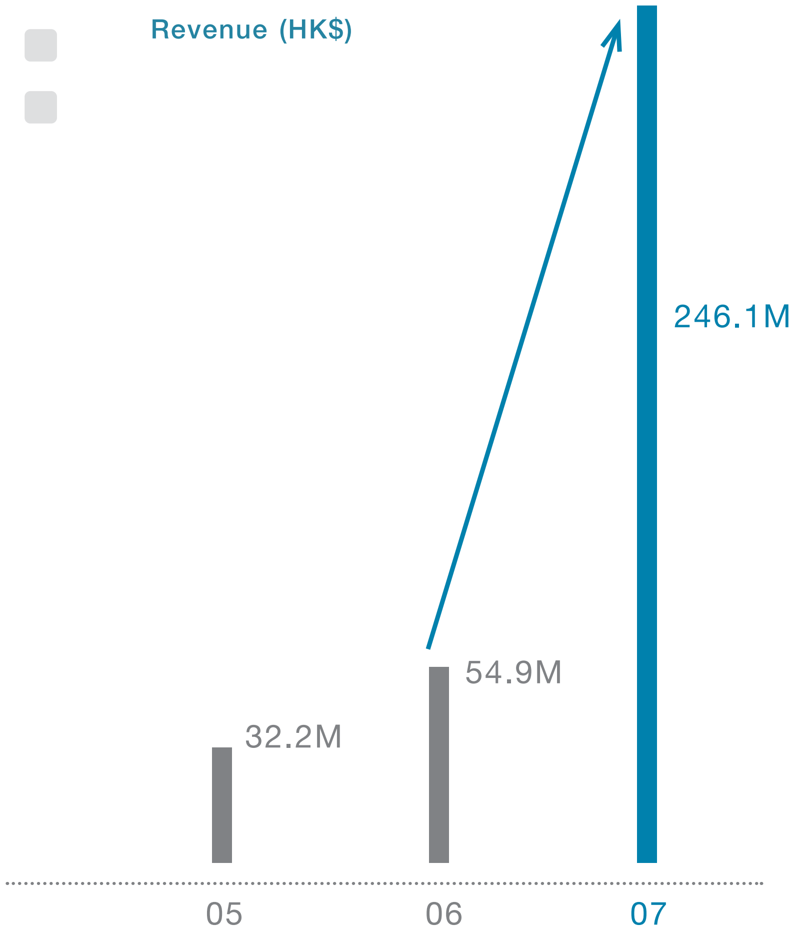
Furthermore, we become more active in co-production deals with world leading studios this year to accumulate more IP asset for long term financial upside. One of such co-production effort results in our second full feature length CGI film, "Little Happy Submarine," which will be released in summer 2008 in the PRC. The worldwide DVD distribution deal is already under discussion.

In CG training division, revenue and segment result for this year amounted to approximately HK$11.0 million and HK$2.0 million, respectively, which reported a respectively increase of approximately 21% and over 16 times comparing with that for the year 2006. This is mainly resulted from wider and more effective recruiting methods, higher utilisation of our training staff towards higher ROI activities, higher enrollment per class, and increased number of long term classes, etc. We maintain our industry reputation as the most comprehensive and most effective CG professional training program evidenced by nearly full employment of the graduates within three months of graduation.

For the year 2007, we have proofed the validity of our business strategy through solid execution. We are confident that the Group is able to maintain steady growth and becomes one of the best digital media company in Asia, as we are facing high growth potential for digital content distribution and exhibitions division, and having growing income from CG creation and production division and CG training division.

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

Cao Zhong
Chairman



+348%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the year ended 31 December 2007 was approximately HK$246,125,000, when compared with that of approximately HK$54,920,000 for the year 2006, represented an increase of approximately 348%. The increase was mainly attributable to the increase in revenue from digital content distribution and exhibitions division, and computer graphic ("CG") creation and production division.

During the year ended 31 December 2007, the Group's revenue from digital content distribution and exhibitions division, which mainly consisted of sales of digital cinema equipment, the relevant technical service income and income from equipment leasing, amounted to approximately HK$183,862,000, increased for approximately 11 times comparing with that for the year 2006. This increase was mainly due to digital cinema equipment sold for the deployment of digital cinema network in the People's Republic of China (the "PRC", for the purpose of this report, does not include Hong Kong, Macau and Taiwan) cooperated by China Film Group Corporation ("CFGC") and the Group (the "PRC Digital Cinema Project") during the second half of the year, launch of new products, and upgrading digital cinema servers to the Digital Cinema Initiative ("DCI") specified JPEG2000 code with improved security features. The Group's revenue from CG creation and production division amounted to approximately HK$51,300,000, increase for approximately 69% comparing with that for the year 2006, as a result of increase in both works from new clients and repeated orders from existing clients.

Cost of sales for the year ended 31 December 2007 amounted to approximately HK$165,544,000 which, comparing with that of approximately HK$30,135,000 for the year 2006, represented an increase of approximately 449%.

Management Discussion and Analysis

The Group made a gross profit of approximately HK$80,581,000 for the year ended 31 December 2007, representing a gross profit margin of approximately 33%. Comparing with the gross profit margin of approximately 45% for the year 2006, the decrease was mainly due to the digital cinema equipment, DCI-2000 Digital Cinema Integrated Projection System, sold for the PRC Digital Cinema Project was at a lower margin than the other products.

Other income for the year ended 31 December 2007 amounted to approximately HK$14,413,000 (2006: HK$1,099,000) mainly represented interest income of approximately HK$6,252,000 earned during the year, and the waiver of certain interest payable on other loan and rental payable amounted to approximately HK$4,156,000 and HK$3,228,000, respectively, upon entering into settlement agreements with relevant parties.

Administrative expenses for the year ended 31 December 2007 amounted to approximately HK$99,878,000 (2006: HK$38,365,000), representing an increase of approximately 160%. The increase was mainly due to recognition of equity-settled share based payments of approximately HK$57,402,000 (2006: HK$5,937,000) for the share options granted during the year, and increase in operating expenses as a result of growth in the operations of the Group.

Finance costs for the year ended 31 December 2007 amounted to approximately HK$4,002,000 (2006: HK$13,080,000), representing a decrease of approximately 69%. The decrease was mainly attributable to both decrease in interest to a fellow subsidiary and other related parties of approximately HK$6,199,000 and HK$2,626,000, respectively.

The discount on acquisition of additional interest in a subsidiary for the year ended 31 December 2007 amounted to approximately HK$1,342,000 represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, over the cost of the subscription of 53,388,178 new shares of GDC Technology at HK$2 per share in November 2007.

Gain on dilution of interest in a subsidiary of approximately HK$40,130,000 for the year ended 31 December 2007 included (i) approximately HK$40,295,000 from the gain on dilution of the Group's interest in GDC Technology from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US$6.5 million (or equivalent to approximately HK$50,570,000) in January 2007, and (ii) approximately HK$165,000 from the net loss on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during the year. With this additional funding, digital content distribution and exhibitions division has been in a better position to expedite the rolling out of its business plan and enhanced its research and development activities.

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 transfer of 15% interest in GDC Technology to its management for an aggregate cash consideration of HK$1,600,000 during that year.

Overall, the Group recorded profit of approximately HK$18,302,000 for the year ended 31 December 2007 attributable to equity holders of the Company, when compared with that loss of approximately HK$30,245,000 for the year 2006. Excluding the non-cash expense on recognition of equity-settled share-based payments, such adjusted profit for the year attributable to equity holders of the Company amounted to approximately HK$75,704,000.

BUSINESS REVIEW

Digital content distribution and exhibitions

Digital content distribution and exhibitions division reported a significant improvement for the year ended 31 December 2007. The majority of the revenue was derived from sales of servers, encoders and Network Operation Centre ("NOC") for cinema theatres and digital signage, the products were sold worldwide including the United States, Europe, Africa and Asia markets. The Group also delivered and installed

Management Discussion and Analysis

equipment to new 3D digital cinema theatres in Hong Kong with its new product - DCI-2000 Digital Cinema Integrated Projection System. Besides, the certificate of Hong Kong origin with CEPA (Closer Economic Partnership Arrangement) has been issued by Hong Kong Trade and Development Council for DCI-2000 which can exempt the custom duty of DCI-2000 imported to the PRC. The Group continues to be the market leader in Asia, in particularly in the PRC where it enjoys more than 95% market share in digital cinemas in the PRC.

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

For the Group's networked digital signage solutions, its use is not only limited to cinema multiplex, but also apply to other locations, such as shopping malls. Up to the date of this report, the Group has delivered and installed to more than 10 shopping malls in Singapore with its digital signage solutions.

In addition, the Group continued to market its products through participation in international trade exhibitions, such as ShoWest 2007, Beijing International Radio, Television & Film Equipment Exhibition ("BIRTV") 2007 and CineAsia 2007, and high profile demonstration projects during the year. At the China Beijing 5th Digital Cinema Forum held on 24 August 2007 during BIRTV where latest updates on digital cinema businesses and technologies were presented, the Group presented its new SA-2100 DSR™ Digital Film Server capable of playing out 3D content. At the Digital Cinema Forum, this new SA-2100 Server was selected for the 3D screenings of the latest 3D Hollywood feature film trailers and won the coveted 2007 BIRTV Award for Outstanding Product. The same SA-2100 Server can also play out alternative contents such as pre-show entertainment, on-screen-advertisement and HDTV live-events in high quality without the need for another server. Besides, this all-in-one SA-2100 Server can support stereoscopic 3D playback and HDTV live-streaming/recording.

CG creation and production

The Group's business volume in CG creation and production division grew significantly for the year ended 31 December 2007 and it was the first time for this division to have net profit in its entire history. When compared with that for the year 2006, this division reported a growth of 69% in revenue and 103% in gross profit. While the Group received



Management Discussion and Analysis

repeated orders from existing clients, the Group also won production contract from two new clients. The success in expending client base was largely attributed to the effective marketing effort and the quality, reliability and predictability of the Group's service, which won recognition in the industry. Three renowned entertainment content distributors in Hollywood have respectively committed to distribute nine direct-to-home movies and three television series produced or co-produced by the Group. Some of these products were already commercially available in the United States, Australia and Europe markets. In addition, one theatrical film partially produced by the Group was released in Europe during the year. At present, in addition to domestic business in the PRC, the Group expands its customer base to North America, Europe, Asia and the Middle East regions.

The Group's achievement in exporting CG animation services and contents has been recognised by the PRC government. The Group was awarded the "Key National Enterprises for Cultural Export 2007-2008" jointly by the Ministry of Commerce, the Ministry of Culture, the State Administration for Radio, Film and Television (SARFT) and the General Administration of Press and Publication. Such certificate was a prestigious endorsement of the Group's success in positioning itself as an active player in the global digital entertainment market.

CG training

CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. With the best training, highest graduates employment rate and comprehensive training materials, the Group maintained a leading position in the CG professional training domain in the PRC. The Group was highly recognised by different departments and players in the industry and received several rewards in the PRC, including "The Top ten CG Production Companies in China in 2007" with the first place, "Chinese Prospering CG Hero enterprise Award 2007", "Most Well-received Training Institute in the Prospering Chinese CG Industry in 2007" and "Advanced Work Unit in Training for 2007".

Through continued improvement in the management system, enhancement in the infrastructure, provision of best training environment and focused marketing programs, this division recorded steady revenue growth of approximately 21% for the year ended 31 December 2007, comparing with that for the year 2006.

OUTLOOK

Digital content distribution and exhibitions

Many industry observers agree that the conversion of film projectors-based analogue cinema to digital projector and server based digital cinema will definitely take place as different parties in the industry, including but not limited to film producers, distributors and exhibitors can gain from the digital cinema technology. Digital cinema can achieve cost savings, improved copyrights protection, greater flexibility to exhibitors for the booking of alternative content such as concerts and sporting events, new digital 3D contents and improved visual and audio qualities. However, less than 5% of the world cinemas have converted to digital by the end of the year 2007 with approximately three quarters of the digital screens in the United States. This is largely due to the cost of conversion is a multi-billions undertaking.

Although the conversion to digital is not much, there are a rapidly growing number of cinemas go digital recently, especially in the United States because of the availability of the sound business model, virtual print fees ("VPF") sponsored by the Hollywood studios to finance the conversion of theatres there. During the year, intense negotiations for VPF deals were conducted resulting a European VPF deal, a company in Europe signed VPF contracts with five major Hollywood studios up to the date of this report for its roll-out plan of digital cinemas there. The extension of VPF to international territories outside the United States will facilitate the global conversion and it is expected that more VPF deals will be announced in the near future.

The Group is of the view that such trend will bring ample business opportunities to the Group, which is one of the world leading server manufacturers and has been actively developing its digital cinema

Management Discussion and Analysis

business in recent years. It is expected there will be further expansion of the Group's business in this division for the year 2008 and thereafter.

The Group also envisages the conversion of public area display systems used for outdoor advertisement to digital systems and has developed a digital signage server - SDM4000 DSR™ Display Maestro in an attempt to capture the potential growth in this market. SDM4000's programmable, networked LCD and LED display solutions offer a dynamic, high-impact medium for the advertising agencies. The Group expects revenue from the sales of SDM4000 will grow significantly in the year 2008.

To capture the potential opportunities, the Group successfully strengthened its production facilities in Shenzhen and Hong Kong in preparation of mass production of its products. The initial production capacity aimed to produce 250 units per month with the aim of ramping up the production to 400 units in the year 2008. The Shenzhen office has also started its 24x7 Customer Service Center, which provides round-the-clock call service for exhibitors and monitors the progress of screenings of movies. Besides, the Group has also set up its office in the United States to enhance its service and marketing activities there.

In addition, CFGDC Digital Cinema company Limited ("PRC Media JV"), the sino-foreign joint venture with CFGC for the deployment of digital cinema network and related businesses in the PRC was established and its 49% interest was transferred to the Group in November 2007. As at 31 December 2007, about 450 units of digital cinema equipment were purchased for installation to cinemas in all the 27 provinces in the PRC. The PRC Digital Cinema Project would be processed further with an aim to promote the digital cinema business in the PRC.

The box office in the PRC increased continuously over the past five years at above 25% per annum, in accordance to the information provided by SARFT, the box office for the year increased by approximately 27% to approximately RMB3.3 billion. With the blooming economy development and the strong domestic consumption in the PRC, it is expected the box office in the PRC will increase further in the future and the revenue of the PRC Digital Cinema Project, which is based on sharing of box office receipts with those cinemas using the digital cinema equipment for distribution of digital motion pictures, will increase accordingly. Besides, CFGC and the Group have also explored the alternative revenue in addition to the share of box office for the PRC Digital Cinema Project.

CG creation and production

Negotiations for new orders and various partnerships for CG creation and production division are underway. Considering the value of orders under discussion and the clients' increased trust and dependency on the Group and the fact that the Group's reputation in the industry is being enhanced, revenue, eliminating seasonal effect, is expected to growth in the foreseeable future. It is worth more appreciation that all existing clients of the Group have expressed interest or commitment to collaborate on new projects with the Group.

The market sensibility, production skills, access to global distribution channels, and profit generated in the past two years formed a solid foundation for the Group's original content creation initiatives. In addition to maintaining rapid growth in work-for-hire content creation business, the Group is actively developing its original content creation business, including in the form of co-production and sole investment, a CG feature movie co-produced by the Group is scheduled to be theatrically released in summer 2008. The Group also expects to start generating IP sales revenue globally through the success of its co-produced properties.

This division certainly is in a rapidly growing market both domestically and internationally. In order to maintain the Group's leadership position in the PRC and siege the market opportunities worldwide, the Group will continuously improve its production efficiency and creative ability. In order to expand its production capacity, the Group will establish another studio in the city of Chongqing, it has completed the feasibility study and reached mutual understanding with the local government on significant business terms such as location and government sponsorship.

Management Discussion and Analysis

Furthermore, with the support of the local municipal government, the Group is constructing its headquarters building at Shenzhen High-tech Industrial Park and the construction is scheduled to be completed in the year 2009. Upon completion, the Group will own the most modern, largest ever single building constructed and used for the creation of digital entertainment content in the PRC, the Group's production capacity and efficiency will enhance further at that time.

CG training

With the encouragement from the PRC government on subcontracting foreign CG projects and the development of domestic CG and game industries, the demand for equipped people in this field increased. The aim of the Group to provide vocational training and the courses designed by the Group emphasising practical skills and including more case studies are in line with the market needs and can train up the production capability of the students. Besides, the Group will consider cooperating with the high schools and universities and companies in the CG and game industries to tailor make some advanced courses for their students or employees.

The Group's training centres in Shanghai and Shenzhen have already certified by the local government to be a vocational training centre, and the Group is considering the establishment of its third and forth training centres in the year 2008, this will strengthen the training brand of the Group in the PRC.

To conclude, the Group will further expand its training network throughout the PRC with Shanghai, Shenzhen and its new training centres as the core centers. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network, and diversify its revenue stream.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had bank balances and cash of approximately HK$210.4 million as at 31 December 2007 (2006: HK$8.6 million) and pledged bank deposit of approximately HK$7.8 million as at 31 December 2007 (2006: Nil) which were mainly denominated in United States dollars, Hong Kong dollars and Renminbi. The increase was mainly from net proceeds received from the issue of shares by the Company and by GDC Technology of approximately HK$521.4 million in total during the year ended 31 December 2007, netting off with the purchase of intangible asset and property, plant and equipment of approximately HK$88.6 million and HK$12.8 million, respectively, and the repayment of borrowings of approximately HK$98.9 million.

As at 31 December 2007, the Group's borrowings amounted to approximately HK$49.4 million, of which were repayable within twelve months from 31 December 2007. All borrowings bear interest at market rates.

Gearing ratio (calculated as borrowings divided by equity attributable to equity holders of the Company) as at 31 December 2007 was approximately 14%. There was no gearing ratio presented as at 31 December 2006 as the Group recorded capital deficiency at that moment. As at 31 December 2007, the Group has current ratio of approximately 2.7 (2006: 0.2) based on current assets of approximately HK$250.5 million and current liabilities of approximately HK$93.3 million. The Group's leverage enhanced significantly was mainly attributable to addition funding from issue of shares during the year.

Management Discussion and Analysis

CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK$358.0 million as at 31 December 2007 (2006: a capital deficiency of approximately HK$155.0 million). The increase was mainly due to (i) net proceeds from issue of shares by the Company completed in January 2007, March 2007, May 2007 and July 2007, details of which were set out in respective announcements, of approximately HK$471.2 million in total, (ii) profit for the year ended 31 December 2007 attributable to equity holders of the Company of approximately HK$18.3 million, (iii) proceeds from exercise of share options of the Company of approximately HK$23.2 million, (iv) recognition of equity-settled share based payments of the Company of approximately HK$41.5 million, and netting off with (v) special reserve upon the Group's acquisition of additional interest in GDC Tech of approximately HK$46.4 million.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the dilution of interest in GDC Technology, acquisition of PRC Media JV and acquisition of additional interest in GDC Technology as mentioned in notes 12, 22 and 39 to the consolidated financial statements, respectively, the Group had no material acquisitions, disposals and significant investment during the year ended 31 December 2007.

CHARGE ON ASSETS

As at 31 December 2007, the Group pledged a deposit amounted to approximately HK$7.8 million (2006: Nil) to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue in United States dollars and Renminbi, and incurs costs in United States dollars, Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2007, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 47 to the consolidated financial statements about litigation proceeding, the Group had no significant contingent liabilities as at 31 December 2007.

EMPLOYEES

As at 31 December 2007, the Group employed 424 (2006: 351) 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 Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") during the financial year ended 31 December 2007.

BOARD OF DIRECTORS

Composition

The Board currently comprises four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biography" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the bye-laws of the Company ("Bye-laws").

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Meeting records

During the financial year ended 31 December 2007, the Directors have made active contribution to the affairs of the Group and six Board meetings were held to consider, among other things, reviewing and approving the quarterly results, interim results and annual results of the Group.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Meeting records *(Continued)*

Details of Directors' attendance records in 2007 are as follows:

	Meetings attended/Eligible to attend
Chairman	
Cao Zhong	5/6
Executive Directors	
Chen Zheng	5/6
Jin Guo Ping	6/6
Lu Yi, Gloria *(appointed on 20 September 2007)*	1/2
Xu Qing, Catherine *(resigned on 1 December 2007)*	5/5
Non-executive Director	
Leung Shun Sang, Tony	6/6
Independent Non-executive Directors	
Kwong Che Keung, Gordon	6/6
Bu Fan Xiao	5/6
Hui Hung, Stephen	6/6

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointments and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

All the Non-executive Directors have formal letters of engagement for a term of three years commencing on 1 January 2008 setting out the major terms and conditions of their appointment.

According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director, including those appointed for a specific term is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the GEM Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Independent Non-executive Directors

Pursuant to Rules 5.05(1) and 5.05(2) of the GEM Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Cao Zhong assumes the role of the Chairman and Mr. Chen Zheng serves as the Managing Director of the Company. The Chairman provides leadership for the Board and overall strategic formulation for the Group. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established and comprises all Executive Directors of the Company.

As at 31 December 2007, the members of the Executive Committee were as follows:

- Cao Zhong *(Chairman)*
- Chen Zheng
- Jin Guo Ping
- Lu Yi, Gloria

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. The Executive Committee meets as and when required. During the year, one meeting of the Executive Committee was held.

Corporate Governance Report

BOARD COMMITTEE *(Continued)*

Audit Committee

An Audit Committee of the Board was established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

The principal duties of the Audit Committee include, among other things:

- overseeing the relationship with the Company's auditor;
- reviewing the quarterly, interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee comprised three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Kwong Che Keung, Gordon *(Chairman)*	4/4
Bu Fan Xiao	3/4
Hui Hung, Stephen	4/4

During the year, four meetings of the Audit Committee were held for, amongst other things, reviewing:

- the final results of the Group for the financial year ended 31 December 2006;
- the quarterly results of the Group for the three months ended 31 March 2007;
- the interim results of the Group for the six months ended 30 June 2007; and
- the quarterly results of the Group for the nine months ended 30 September 2007.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Corporate Governance Report

BOARD COMMITTEE *(Continued)*

Nomination Committee

The Company established the Nomination Committee with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the GEM Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The members of the Nomination Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Cao Zhong *(Chairman) (appointed on 3 January 2007)*	1/1
Leung Shun Sang, Tony *(Vice Chairman) (appointed on 3 January 2007)*	1/1
Kwong Che Keung, Gordon	1/1
Bu Fan Xiao	0/1
Hui Hung, Stephen	1/1

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, one meeting of the Nomination Committee was held for considering the nomination of Ms. Lu Yi, Gloria as a Director of the Company and the changes of titles of the Executive Directors.

Corporate Governance Report

BOARD COMMITTEE *(Continued)*

Remuneration Committee

The Company established the Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;
- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The members of the Remuneration Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	5/5
Cao Zhong *(Vice Chairman)*	3/5
Kwong Che Keung, Gordon	5/5
Bu Fan Xiao	2/5
Hui Hung, Stephen	5/5

The Independent Non-executive Directors of the Company constitute the majority of the committee.

Corporate Governance Report

BOARD COMMITTEE *(Continued)*

Remuneration Committee *(Continued)*

During the year, five meetings of the Remuneration Committee were held for, amongst other things:

- reviewing the remuneration policies of the Company and the remuneration and terms of service contracts of the Executive Directors of the Company;

- determining the bonuses of the Executive Directors of the Company for the years 2006 and 2007; and

- making recommendations to the Board on the terms of engagement letters of the Non-executive Directors of the Company and their directors' fees for the years 2006, 2007 and 2008.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

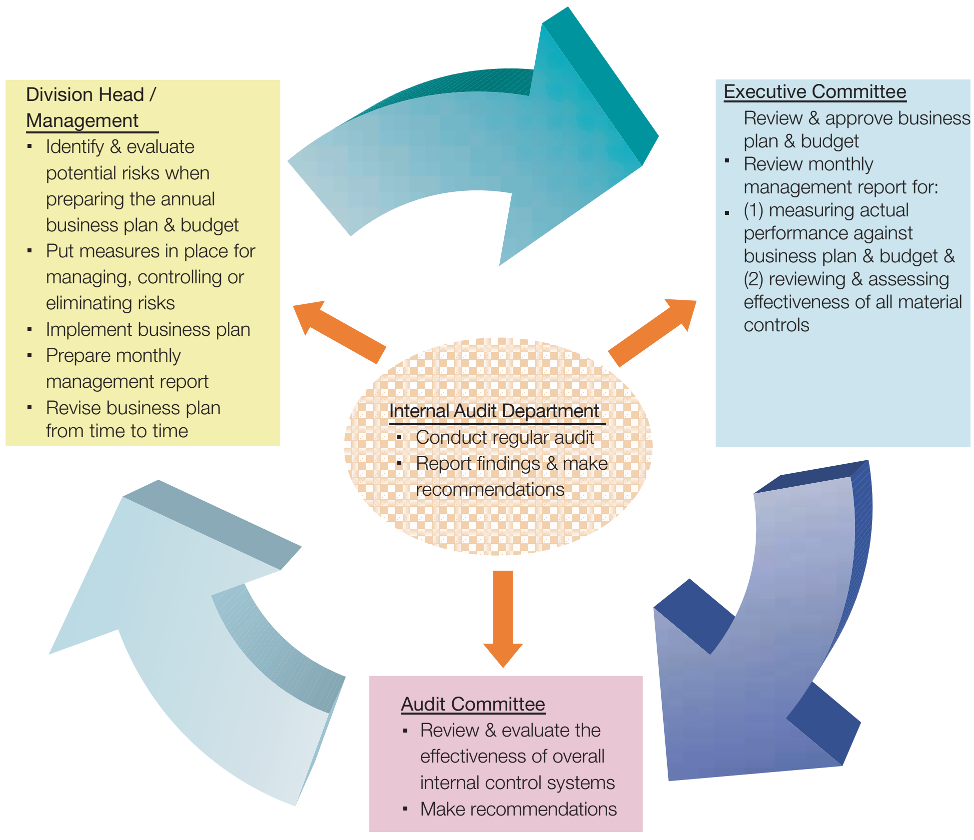
The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls. The Executive Committee holds periodical meetings with the senior management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

Corporate Governance Report

INTERNAL CONTROL *(Continued)*

Internal control system

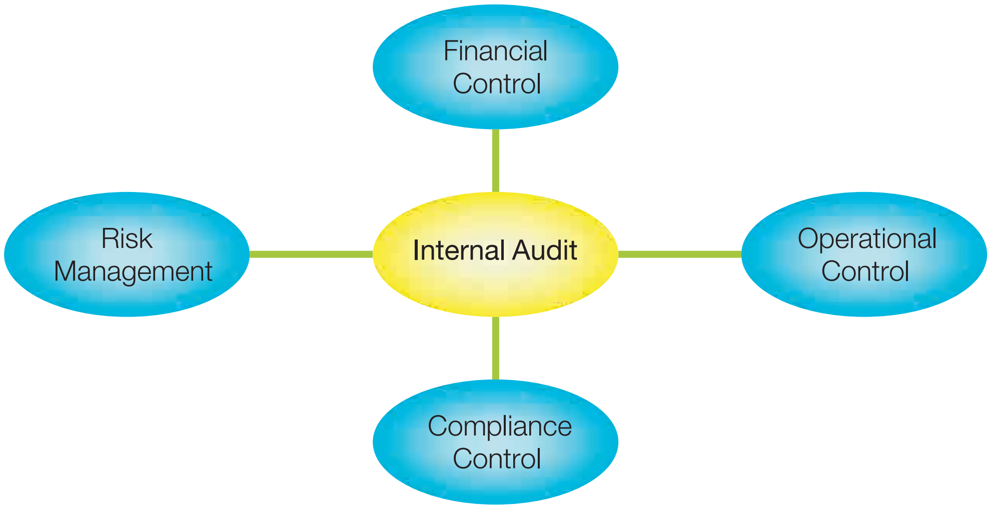


The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems. The Company has set up an Internal Audit Department which assists the Audit Committee to discharge its duties in this aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Audit Committee with its findings and make recommendations to improve the internal control systems of the Group.

Corporate Governance Report

INTERNAL CONTROL *(Continued)*

Internal audit functions



The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the Internal Audit Department), continuously reviewing the effectiveness of the Group's internal control systems.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2007.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

Corporate Governance Report

AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fee paid/payable HK$'000
Statutory audit services	1,638
Non-statutory audit services:	
Review on interim financial report	253
Special audit services	513
	2,404

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the quarterly, interim and annual financial statements, announcements and other financial disclosure required under the GEM Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 48 to 49 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual, interim and quarterly reports and announcements. All shareholders' communications are also available on the Company's website at www.gdc-world.com.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in the Company's circulars convening a general meeting. The chairman of a general meeting also explains the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published on the GEM's and Company's websites.

Report of the Directors

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associate are set out in notes 46 and 22 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 50 to 113.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 114 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 38 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 53 to 54 of this annual report.

DIRECTORS

The Directors of the Company during the year were as follows:

Cao Zhong
Chen Zheng
Jin Guo Ping
Lu Yi, Gloria *(appointed on 20 September 2007)*
Leung Shun Sang, Tony
Kwong Che Keung, Gordon*
Bu Fan Xiao*
Hui Hung, Stephen*
Xu Qing, Catherine *(resigned on 1 December 2007)*

* *Independent Non-executive Directors*

Report of the Directors

DIRECTORS *(Continued)*

In accordance with clauses 86(2) and 87(2) of the Company's Bye-laws, Ms. Lu Yi, Gloria, Mr. Leung Shun Sang, Tony, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

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

The Directors of the Company who held office at 31 December 2007 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at the balance sheet date as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules:

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

		Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at
Name of Director	Capacity in which interests are held	Interests in shares	Interests under equity derivatives*	Total interests	31.12.2007
Cao Zhong	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Chen Zheng	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Jin Guo Ping	Beneficial owner	–	8,008,200	8,008,200	0.62%
Lu Yi, Gloria	Beneficial owner	–	12,000,000	12,000,000	0.93%
Leung Shun Sang, Tony	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Kwong Che Keung, Gordon	Beneficial owner	800,820	490,000	1,290,820	0.10%
Bu Fan Xiao	Beneficial owner	–	1,290,820	1,290,820	0.10%
Hui Hung, Stephen	Beneficial owner	800,820	490,000	1,290,820	0.10%

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

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in Shougang Grand: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of Shougang Grand as at 31.12.2007
Cao Zhong	Beneficial owner	–	11,368,000	11,368,000	0.99%
Chen Zheng	Beneficial owner	–	11,368,000	11,368,000	0.99%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	11,368,679	19,646,679	1.71%

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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Tech: Interests in shares	Interests under equity derivatives*	Total interests	Total interests as to % to the issued share capital of GDC Tech as at 31.12.2007
Cao Zhong	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Chen Zheng	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Lu Yi, Gloria	Beneficial owner	–	12,000,000	12,000,000	5.16%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	1,653,333	3,783,333	1.63%
Kwong Che Keung, Gordon	Beneficial owner	1,706,667	165,000	1,871,667	0.80%
Bu Fan Xiao	Beneficial owner	–	165,000	165,000	0.07%
Hui Hung, Stephen	Beneficial owner	–	165,000	165,000	0.07%

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

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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

Save as disclosed above, at the balance sheet date, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" herein, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Cao Zhong	Shougang Grand#	Cultural recreation content provision$^{\Delta}$	Vice chairman and managing director
Chen Zheng	Shougang Grand#	Cultural recreation content provision$^{\Delta}$	Managing director of operations
Leung Shun Sang, Tony	Shougang Grand#	Cultural recreation content provision$^{\Delta}$	Director

\# *Shougang Grand indirectly held approximately 50.76% interests in the Company as at 31 December 2007.*

$^{\Delta}$ *Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.*

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES *(Continued)*

The Board of Directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 31.12.2007
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	656,790,023 *(Note)*	50.71%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	656,790,023 *(Note)*	50.71%
Shougang Grand	Interests of controlled corporations	656,790,023 *(Note)*	50.71%
SCG Investment (BVI) Limited ("SCG Investment")	Interests of controlled corporations	656,790,023 *(Note)*	50.71%
Grand Phoenix Limited ("Grand Phoenix")	Interests of controlled corporations	656,360,023 *(Note)*	50.67%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	656,360,023 *(Note)*	50.67%
Keywise Capital Management (HK) Limited	Investment manager	97,842,000	7.55%
Keywise Greater China Opportunities Master Fund	Beneficial owner	69,474,000	5.36%

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(Continued)*

Long positions in the shares of the Company *(Continued)*

Note: Upper Nice was a wholly-owned subsidiary of Grand Phoenix and its interest was included in the interests held by Grand Phoenix.

Grand Phoenix was a wholly-owned subsidiary of SCG Investment and its interest was included in the interests held by SCG Investment.

SCG Investment was a wholly-owned subsidiary of Shougang Grand and its interest was included in the interests held by Shougang Grand.

Shougang Grand was held as to approximately 37.42% by Wheeling and its interest was included in the interests held by Wheeling.

Wheeling was a wholly-owned subsidiary of Shougang Holding and its interest was included in the interests held by Shougang Holding.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the GEM Listing Rules as at the date of this report.

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 18 July 2003, the Scheme which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to eligible participants as rewards for their contributions to the Group. The Scheme will remain in force for a period of 10 years commencing on 4 August 2003, being the date on which dealings in the shares of the Company first commenced on the GEM, to 3 August 2013.

Under the Scheme, the Directors of the Company may, at their discretion, offer any 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 providers to the Group who the Directors of the Company consider, in their sole discretion, have contributed or contribution to the Group, share options to subscribe for share of the Company.

Report of the Directors

SHARE OPTION SCHEMES *(Continued)*

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

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 55,722,840 which represents approximately 4.30% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 81,909,550, representing approximately 6.32% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including both exercised and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of the Company and Shougang Grand respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of the Company or Shougang Grand, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company and/or Shougang Grand. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company or Shougang Grand, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the shares of the Company at the date of each offer), within any 12-month period, are subject to approval of the shareholders of the Company and/or Shougang Grand in advance in general meeting.

The period during which a share option may be exercised will be determined by the Directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Directors of the Company at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer.

Report of the Directors

SHARE OPTION SCHEMES *(Continued)*

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

No share option was cancelled or lapsed in accordance with the terms of the Scheme during the year. Details of movement in the share options under the Scheme during the year were as follows:

	Options to subscribe for shares of the Company						
Category or name of grantees	At the beginning of the year	Granted during the year[1 & 2]	Exercised during the year[3]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company							
Cao Zhong	8,008,200	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	4,900,000	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	8,008,200	4,900,000	(8,008,200)	4,900,000			
Chen Zheng	8,008,200	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	4,900,000	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	8,008,200	4,900,000	(8,008,200)	4,900,000			
Jin Guo Ping	8,008,200	–	–	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Xu Qing, Catherine[4]	8,008,200	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
Lu Yi, Gloria	–	12,000,000	–	12,000,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
Leung Shun Sang, Tony	8,008,200	–	(8,008,200)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	4,900,000	–	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	8,008,200	4,900,000	(8,008,200)	4,900,000			
Kwong Che Keung, Gordon	800,820	–	(800,820)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	490,000	–	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	800,820	490,000	(800,820)	490,000			
Bu Fan Xiao	800,820	–	–	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	490,000	–	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	800,820	490,000	–	1,290,820			
Hui Hung, Stephen	800,820	–	(800,820)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	490,000	–	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	800,820	490,000	(800,820)	490,000			
	42,443,460	28,170,000	(33,634,440)	36,979,020			
Employees of the Group							
	14,200,000	–	(14,200,000)	–	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	3,000,000	(700,000)	2,300,000	22.03.2007	22.03.2007 – 21.03.2010	HK$1.07
	–	2,890,000	(628,000)	2,262,000	04.04.2007	04.04.2007 – 03.04.2010	HK$1.52
	–	9,900,000	–	9,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75
	14,200,000	15,790,000	(15,528,000)	14,462,000			
Other Participants							
	13,204,920	–	(10,704,100)	2,500,820	06.10.2006	06.10.2006 – 05.10.2009	HK$0.30
	–	4,340,000	(2,559,000)	1,781,000	04.04.2007	04.04.2007 – 03.04.2010	HK$1.52
	13,204,920	4,340,000	(13,263,100)	4,281,820			
	69,848,380	48,300,000	(62,425,540)	55,722,840			

Report of the Directors

SHARE OPTION SCHEMES *(Continued)*

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

Notes:

1. The closing prices of the shares of the Company immediately before the dates on which the share options were granted on 22 March 2007, 4 April 2007 and 30 October 2007 were HK$1.06 per share, HK$1.56 per share and HK$2.68 per share, respectively.

2. The fair values of the options of which at the dates of grant on 22 March 2007, 4 April 2007 and 30 October 2007 were HK$0.58, HK$0.86 and HK$0.88 respectively. These fair values were calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

	Granted on 22 March 2007	Granted on 4 April 2007	Granted on 30 October 2007
Weighted average share price	HK$1.07	HK$1.52	HK$2.70
Exercise price	HK$1.07	HK$1.52	HK$2.75
Expected volatility	89%	97%	68%
Expected life	3 years	3 years	5 years
Risk-free rate	3.88%	3.89%	3.49%
Expected dividend yield	Nil	Nil	Nil

   Expected volatility were determined by using the historical volatility of the Company's share price over the previous 3 years and 5 years (as the case may be). The expected lives used in the model have been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

   The Group recognised the total expense of approximately HK$41,488,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

3. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$2.13 per share.

4. Dr. Xu Qing, Catherine resigned as a Director of the Company on 1 December 2007.

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

The Company and Shougang Grand have adopted the GDC Tech Scheme by a shareholders' resolution passed at their respective special general meetings held on 19 September 2006.

The purpose of the GDC Tech Scheme is to enable GDC Tech to grant options to eligible participants as rewards for their contributions to GDC Tech, its subsidiaries and its holding companies (including intermediate and ultimate holding companies) (the "GDC Tech Group"). The GDC Tech Scheme will remain in force for a period of 10 years commencing on 19 September 2006, being the date of adoption of the GDC Tech Scheme, to 18 September 2016.

Under the GDC Tech Scheme, the directors of GDC Tech may, at their discretion, offer any full-time or part-time employees, executives, officers and directors (including non-executive directors and independent non-executive directors) of the GDC Tech Group and any advisors, consultants, suppliers, customers and agents to the GDC Tech Group and such other persons who the directors of GDC Tech consider, in their sole discretion, will contribute or have contributed to the GDC Tech Group, share options to subscribe for shares of GDC Tech.

Report of the Directors

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Tech *(Continued)*

The total number of shares of GDC Tech which may be issued upon exercise of all outstanding share options granted under the GDC Tech Scheme is 24,834,998 which represents approximately 10.68% of the issued share capital of GDC Tech as at the date of this annual report. The maximum number of shares of GDC Tech available for issue upon exercise of all share options which may be granted under the GDC Tech Scheme is 9,023,024, representing approximately 3.88% of the issued share capital of GDC Tech as at the date of this annual report. The total number of shares of GDC Tech issued and to be issued upon the exercise of share options granted under the GDC Tech Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC Tech as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of the Company and Shougang Grand respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of the Company or Shougang Grand, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company and/or Shougang Grand. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company or Shougang Grand, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC Tech in issue (based on the date of offer) within any 12-month period, are subject to approval of the shareholders of the Company and/or Shougang Grand in advance in general meeting.

The period during which a share option may be exercised will be determined by the directors of GDC Tech at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Tech Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC Tech are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC Tech at their absolute discretion and shall not be less than the nominal value of a share of GDC Tech and shall be subject to the approval of the board of directors of the Company or any committee duly constituted thereof. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the GDC Tech Scheme. The offer of a grant of share options must be accepted within 30 days from the date of the offer.

Report of the Directors

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Tech *(Continued)*

No share option was cancelled in accordance with the terms of the GDC Tech Scheme during the year. Details of movement in the share options under the GDC Tech Scheme during the year were as follows:

Category or name of grantees	Options to subscribe for shares of GDC Tech: At the beginning of the year	Granted during the year[1]	Exercised during the year	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company								
Cao Zhong	4,266,667[2]	–	(4,266,667)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
	4,266,667	1,650,000	(4,266,667)	–	1,650,000			
Chen Zheng	4,266,667[2]	–	(4,266,667)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
	4,266,667	1,650,000	(4,266,667)	–	1,650,000			
Xu Qing, Catherine[5]	320,000	–	(320,000)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
Lu Yi, Gloria	–	12,000,000[3]	–	–	12,000,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
Leung Shun Sang, Tony	3,333[2]	–	–	–	3,333	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
	3,333	1,650,000	–	–	1,653,333			
Kwong Che Keung, Gordon	1,706,667[2]	–	(1,706,667)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	–	165,000	–	–	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
	1,706,667	165,000	(1,706,667)	–	165,000			
Bu Fan Xiao	–	165,000	–	–	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
Hui Hung, Stephen	–	165,000	–	–	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
	10,563,334	17,445,000	(10,560,001)	–	17,448,333			
Other individual with options granted in excess of limit								
Chong Man Nang	7,466,666[2]	–	(7,466,666)	–	–	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
Employees of the Group	5,313,332	–	–	(750,000)[4]	4,563,332	05.10.2006	05.10.2006 – 04.10.2009	HK$0.145
	–	1,650,000	–	–	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK$2.00
	5,313,332	1,650,000	–	(750,000)	6,213,332			
Other Participants	1,173,333	–	–	–	1,173,333	29.09.2006	29.09.2006 – 28.09.2009	HK$0.145
	24,516,665	19,095,000	(18,026,667)	(750,000)	24,834,998			

Report of the Directors

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a subsidiary of the Company – GDC Tech *(Continued)*

Note:

1. The fair value per option of which at the date of grant was HK$0.83. This fair value was calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

Weighted average share price	HK$2.34
Exercise price	HK$2.00
Expected volatility	51%
Expected life	5 years
Risk-free rate	3.34%
Expected dividend yield	Nil

   Expected volatility was determined by using the historical volatility of the share price of other companies in the similar industry of GDC Tech over the previous 5 years. The expected life used in the model has been adjusted, based on GDC Tech management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

   The Group recognised the total expense of approximately HK$15,914,000 for the year ended 31 December 2007 in relation to share options granted by GDC Tech.

2. The number of share options granted to Mr. Cao Zhong, Mr. Chen Zheng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Dr. Chong Man Nang on 29 September 2006 each exceeded the individual limit of 1% of the shares of GDC Tech then in issue and were approved by the shareholders of the Company and Shougang Grand on 19 September 2006 respectively.

3. The number of share options granted to Ms. Lu Yi, Gloria on 2 November 2007 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of the Company and Shougang Grand on 30 October 2007 respectively.

4. The share options were held by four grantees who ceased to be employees of the Group during the year and such share options were lapsed on 3 January 2007, 5 May 2007, 11 May 2007 and 10 June 2007 respectively.

5. Dr. Xu Qing, Catherine resigned as a Director of the Company on 1 December 2007.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

Report of the Directors

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.

DISTRIBUTION RESERVES

At the balance sheet date, the Company had no reserves available for distribution.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 73% of the revenue for the year and the largest customer included therein amounted to approximately 66%. Purchases from the Group's five largest suppliers accounted for approximately 81% of the cost of sales for the year. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The following connected transactions and continuing connected transactions were announced during the year and up to the date of this annual report:

I. Connected transactions during the year

(a) On 16 March 2007, a subscription agreement (the "Subscription Agreement") was entered into between Upper Nice and the Company. Pursuant to the Subscription Agreement, Upper Nice has conditionally agreed to subscribe 100,000,000 new shares of the Company at HK$0.54 per share (the "Subscription") for an aggregate consideration of HK$54,000,000.

As at the date of the Subscription Agreement, Upper Nice was an indirect wholly-owned subsidiary of Shougang Grand, the substantial shareholder of the Company. As such, Shougang Grand was a connected person under the GEM Listing Rules. At completion of the Subscription, Shougang Grand held approximately 70.65% of the issued share capital of the Company. It would be in the interest of the Company to raise funds for the projects of the Group and as general working capital and for the repayment of loans while broaden the shareholders' base and the capital base of the Company. The net proceeds of approximately HK$53,600,000 of the Subscription would be utilized for the deployment of digital cinema network project in the PRC and for repayment of loans and as general working capital of the Group. The Subscription Agreement was approved by the independent shareholders on 23 April 2007 and the Subscription was completed on 2 May 2007.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

I. Connected transactions during the year *(Continued)*

(b) On 14 August 2007, an agreement (the "Agreement") was entered into between Shougang Holding and GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company. Pursuant to the Agreement, GDC Holdings agreed to acquire 100% interest of the issued share capital of Shougang GDC Media Holding Limited ("Shougang GDC Media") from Shougang Holding for a consideration of HK$42,000,000, which payable as to HK$41,500,000 as deposit within one month from the date of the Agreement and as to HK$500,000 at completion. The sole asset of Shougang GDC Media was its 49% interest in 中影首鋼環球數碼數字影院建設（北京）有限公司 ("PRC Media JV"), which was principally engaged in the deployment of digital cinema network and related businesses in the PRC. Shougang Holding undertook that the deposit would be injected into Shougang GDC Media as interest-free shareholders' loan, which would be assigned to GDC Holdings at completion at nil consideration.

As at the date of the Agreement, Shougang Holding held an approximately 40.45% interest in Shougang Grand, which in turn, held approximately 50.76% interest in the Company. As such, Shougang Holding was a connected person under the GEM Listing Rules. At completion of the said acquisition, Shougang GDC Media became a wholly-owned subsidiary of the Company and PRC Media JV became an indirect 49% owned associate of the Company. It would enable the Company to take a further step to participate in the deployment of digital cinema business in the PRC by participating in the operation of PRC Media JV. The Agreement was approved by the independent shareholders on 30 October 2007 and the acquisition was completed on 2 November 2007.

II. Continuing connected transactions during the year

As stated in the announcement of the Company dated 12 April 2007, a master supply agreement (the "Master Supply Agreement") was entered into between GDC Tech and Shougang Grand on 11 April 2007. Pursuant to the Master Supply Agreement, GDC Tech agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related equipment and services. The annual cap amounts of the transactions contemplated under the Master Supply Agreement for each of the period ended 31 December 2007 and the two financial years ending 31 December 2009 will not exceed US$103,000,000, US$104,500,000 and US$106,000,000, respectively. The sales were for the purpose of developing the digital cinema business, pursuant to the co-operation with China Film Group Corporation and the Group. The Master Supply Agreement and the relevant cap amounts were approved by the independent shareholders of the Company and Shougang Grand on 6 June 2007, respectively.

The above continuing connected transactions which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that:

(1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

II. Continuing connected transactions during the year *(Continued)*

(2) the transactions were conducted on normal commercial terms, or if there is no available comparison, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties; and

(3) the transactions were entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

As far as the transactions set out in note 45 to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the transactions as set out in notes (a) and (b) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the GEM Listing Rules. The remaining transactions which took place during the year as set out under the heading of "Related Party Transactions" did not constitute connected transactions under the GEM Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 22 to 32 of this annual report.

AUDITOR

Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company in place of Messrs. PricewaterhouseCoopers upon their resignation on 4 March 2005. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By Order of the Board
Cao Zhong
Chairman

Hong Kong, 20 March 2008

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 50 to 113, which comprise the consolidated balance sheet as at 31 December 2007, 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.

Independent Auditor's Report

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 2007 and of the Group's profit 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
20 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	246,125	54,920
Cost of sales		(165,544)	(30,135)
Gross profit		80,581	24,785
Other income	10	14,413	1,099
Distribution costs and selling expenses		(7,720)	(6,479)
Administrative expenses		(99,878)	(38,365)
Finance costs	11	(4,002)	(13,080)
Share of loss of an associate		(298)	–
Discount on acquisition of additional interest in a subsidiary	39	1,342	–
Gain on dilution of interest in a subsidiary	12	40,130	–
Gain on disposal of partial interest in a subsidiary	13	–	1,795
Profit (loss) before tax		24,568	(30,245)
Income tax expense	14	(3,099)	–
Profit (loss) for the year	15	21,469	(30,245)
Attributable to:			
Equity holders of the Company		18,302	(30,245)
Minority interests		3,167	–
		21,469	(30,245)
		HK cents	HK cents
Earnings (loss) per share	17		
Basic		1.62	(3.78)
Diluted		1.57	N/A

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	18	14,780	4,868
Intangible asset	19	221,545	–
Available-for-sale investment	20	–	–
Prepaid lease payments	21	5,612	–
Interest in an associate	22	424	–
Advance paid for acquisition of intangible asset		35,581	–
		277,942	4,868
Current assets			
Inventories	23	6,761	2,469
Production work in progress	24	–	–
Amounts due from customers for contract work	25	1,494	808
Trade receivables	26	11,502	6,080
Prepayments, deposits and other receivables		11,434	3,680
Prepaid lease payments	21	114	–
Amount due from an associate	27	1,053	–
Pledged bank deposit	28	7,800	–
Bank balances and cash	28	210,377	8,596
		250,535	21,633
Current liabilities			
Income received in advance		10,189	6,701
Amounts due to customers for contract work	25	1,440	1,850
Trade payables	29	4,197	2,838
Other payables and accruals		18,596	29,288
Amounts due to fellow subsidiaries	30	2,553	12,284
Amounts due to directors	30	2,912	2,308
Amount due to a shareholder	31	–	339
Amounts due to other related parties	32	877	1,501
Tax liabilities		3,099	–
Loans from other related parties	33	–	1,209
Loan from a fellow subsidiary – due within one year	34	35,000	–
Obligations under finance leases – due within one year	35	525	1,484
Secured bank borrowing – due within one year	36	13,898	10,000
Other loan	37	–	18,295
		93,286	88,097
Net current assets (liabilities)		157,249	(66,464)
Total assets less current liabilities		435,191	(61,596)

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Loan from a fellow subsidiary – due after one year	*34*	–	92,169
Obligations under finance leases – due after one year	*35*	–	489
Amount due to other related party – due after one year	*32*	–	455
		–	93,113
Net assets (liabilities)		435,191	(154,709)
Capital and reserves			
Share capital	*38*	12,952	8,008
Share premium and reserves		345,084	(163,034)
Equity attributable to equity holders of the Company		358,036	(155,026)
Share options reserve of a subsidiary		15,988	317
Minority interests		61,167	–
Total equity		435,191	(154,709)

The consolidated financial statements on pages 50 to 113 were approved and authorised for issue by the Board of Directors on 20 March 2008 and are signed on its behalf by:

Cao Zhong
Director

Chen Zheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium account HK$'000	Capital contribution reserve HK$'000	Contributed surplus HK$'000	Statutory reserve HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
			(Note a)	*(Note b)*	*(Note c)*			*(Note d)*					
At 1 January 2006	8,008	92,438	445	40,271	680	–	(44)	–	(270,010)	(128,212)	–	–	(128,212)
Exchange differences on translation of foreign operations 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 payments	–	–	–	–	–	5,590	–	–	–	5,590	347	–	5,937
Exercise of share options	–	–	–	–	–	–	–	–	–	–	(28)	–	(28)
Cancellation of share options granted by a subsidiary	–	–	–	–	–	–	–	–	2	2	(2)	–	–
At 31 December 2006 and at 1 January 2007	8,008	92,438	445	40,271	680	5,590	(2,205)	–	(300,253)	(155,026)	317	–	(154,709)
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	5,271	–	–	5,271	–	22	5,293
Profit for the year	–	–	–	–	–	–	–	–	18,302	18,302	–	3,167	21,469
Total recognised income for the year	–	–	–	–	–	–	5,271	–	18,302	23,573	–	3,189	26,762
Sub-total	8,008	92,438	445	40,271	680	5,590	3,066	–	(281,951)	(131,453)	317	3,189	(127,947)
Shares issued	4,320	479,624	–	–	–	–	–	–	–	483,944	–	–	483,944
Transaction costs attributable to issue of shares	–	(12,740)	–	–	–	–	–	–	–	(12,740)	–	–	(12,740)
Increase in minority share of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	9,940	9,940
Exercise of share options	624	30,348	–	–	–	(7,817)	–	–	–	23,155	–	–	23,155
Exercise of share options of a subsidiary	–	–	–	–	–	–	–	–	–	–	(235)	3,014	2,779
Recognition of equity-settled share based payments	–	–	–	–	–	41,488	–	–	–	41,488	15,914	–	57,402
Cancellation of share options granted by a subsidiary	–	–	–	–	–	–	–	–	8	8	(8)	–	–
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(46,366)	–	(46,366)	–	45,024	(1,342)
At 31 December 2007	12,952	589,670	445	40,271	680	39,261	3,066	(46,366)	(281,943)	358,036	15,988	61,167	435,191

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

Notes:

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

(b) 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", for the purpose of this report, does not include Hong Kong, Macau and Taiwan), foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. 環球數碼媒體科技研究(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 2007 represents general reserve fund of IDMT Shenzhen of approximately HK$680,000 (2006: HK$680,000) which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.

(d) Special reserve represents the difference between the fair value and the carrying amount of the net assets attributable to the additional interest in a subsidiary being acquired from minority shareholders during the year ended 31 December 2007. This special reserve will be recognised in the consolidated income statement upon the earlier of the disposal of the subsidiary or the disposal by the subsidiary of the assets to which it relates (see note 39).

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	24,568	(30,245)
Adjustments for:		
Share-based payments expense	57,402	5,937
Depreciation	1,088	2,965
Finance costs	4,002	13,080
Share of loss of an associate	298	–
Allowance for bad and doubtful debts	230	1,660
Amortisation of prepaid lease payments	68	–
Gain on dilution of interest in a subsidiary	(40,130)	–
Discount on acquisition of additional interest in a subsidiary	(1,342)	–
Interest income	(6,252)	(69)
Gain on disposal of property, plant and equipment	(20)	(453)
Gain on disposal of partial interest in a subsidiary (net of expenses)	–	(1,795)
Operating cashflow before movements in working capital	39,912	(8,920)
Increase in inventories	(4,292)	(1,312)
Decrease in production work in progress	–	2,819
Decrease (increase) in amounts due from customers for contract work	168	(808)
Increase in trade receivables	(138,328)	(4,076)
Increase in prepayments, deposits and other receivables	(7,754)	(1,469)
Increase in income received in advance	3,733	3,864
Increase in amounts due to customers for contract work	227	1,850
Increase in trade payables	1,359	1,773
Decrease in other payables and accruals	(11,340)	(586)
Increase in amounts due to directors	604	192
Decrease in amounts due to fellow subsidiaries	(540)	(1,654)
NET CASH USED IN OPERATING ACTIVITIES	(116,251)	(8,327)
INVESTING ACTIVITIES		
Investment in an associate	(722)	–
(Increase) decrease in pledged bank deposit	(7,800)	16,455
Purchase of property, plant and equipment	(12,762)	(3,504)
Acquisition of intangible asset	(88,633)	–
Interest received	6,252	69
Proceeds from disposal of property, plant and equipment	20	453
Proceeds from disposal of partial interest in a subsidiary (net of expenses)	–	1,767
Prepaid lease payments	(5,794)	–
Advance to an associate	(1,053)	–
Advance paid for acquisition of intangible asset	(35,581)	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(146,073)	15,240

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares, net of transaction costs	471,204	–
Proceeds from issue of shares of a subsidiary to a minority shareholder, net of transaction costs	50,235	–
Exercise of share options	23,155	–
Exercise of share options of a subsidiary	2,614	–
Net (repayment of) increase in loan from a fellow subsidiary	(66,360)	33,740
New bank loan raised	13,898	10,000
Repayment of advance from other related parties	(2,440)	(4,417)
Repayment of bank loans	(10,000)	(28,236)
Interest paid	(3,850)	(1,066)
Repayment of obligations under finance leases	(1,448)	(3,402)
Repayment to shareholders	(339)	–
Repayment of other loans	(18,295)	(8,615)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	458,374	(1,996)
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,050	4,917
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	8,596	3,667
Effect of foreign exchange rate changes	5,731	12
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	210,377	8,596

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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 "Corporate 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 46.

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) -Int 11	HKFRS 2: Group and Treasury Share Transactions [2]
HK(IFRIC) -Int 12	Service Concession Arrangements [3]
HK(IFRIC) -Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) -Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008

The directors to the Company (the "Directors") anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. 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 GEM 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Acquisition of additional interest in a subsidiary

Goodwill arising on acquisition of additional interest in a subsidiary represents the excess of the cost of the acquisition over the fair value of the net assets attributable to the additional interest in a subsidiary. If, after reassessment, the fair value of the net assets attributable to the additional interest in a subsidiary by the Group exceeds the cost of the acquisition, the excess is recognised immediately in profit or loss. The difference between the fair value and the carrying value of the underlying assets and liabilities attributable to the additional interest in a subsidiary is debited directly to special reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

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.

Technical service income is recognised when the service is provided.

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts 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 consolidated income statement in the year in which the item is derecognised.

Notes to the Consolidated Financial Statements

3. 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.

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 consolidated 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.

Leasehold land and building
The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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 the respective 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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 income received in advance. 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 base 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.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 a group entity 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 profit or loss.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

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, amount due from an associate, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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. (See accounting policy on impairment loss on financial assets below.)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, other receivables and amount due from an associate, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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 asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivable and amount due from an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to fellow subsidiaries/directors/a shareholder and other related parties, loans from other related parties/a fellow subsidiary, secured bank borrowing and other loan 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.

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 the consolidated income statement.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to the 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). For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, 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 options reserve will be transferred to accumulated losses/retained earnings.

Share options granted in exchange of services

Share options issued in exchange for services are measured at the fair values of the services received similar to those as employees, unless that fair value cannot be reliably measured, in which case the services are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses immediately, unless the services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets 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.

Notes to the Consolidated Financial Statements

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the 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.

Estimated impairment of intangible asset

At 31 December 2007, the carrying amount of intangible asset was approximately HK$221,545,000 (2006: Nil). In determining whether there is objective evidence of impairment loss, the Directors take into consideration the estimation of future cash flows to be generated from use of the intangible asset. 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 a suitable discount rate. Where the actual future cash flows are less than expected, an impairment loss may arise.

During the year ended 31 December 2007, the Directors did not identify any impairment loss on the intangible asset.

Provision for litigation

The management of the Group monitor any litigation against the Group closely. Provision for the litigation is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2007, there is no foreseeable financial impact to the Group and no provision for litigation has been made. Details are set out in note 47.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS

5a. Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash equivalents)	237,310	14,986
Financial liabilities		
Amortised cost	67,722	151,749

5b. Financial risk management objectives and polices

The Group's major financial instruments include trade receivables, other receivables, amount due from an associate, pledged bank deposit and bank balances, trade payables, other payables, amounts due to fellow subsidiaries/directors/a shareholder/other related parties, loans from other related parties/a fellow subsidiary, obligations under finance leases, secured bank borrowing and other loan. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

Market risk

(i) Currency risk

The Group earns revenue in United States dollars and Renminbi, and incurs costs in United States dollars, Renminbi and Hong Kong dollars which are primarily transacted using functional currencies of the respective group entities. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2007 and 2006, the Group has no significant exposure under foreign exchange.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and polices *(Continued)*

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits, loans from other related parties and loan from a fellow subsidiary which carry interest at prevailing market interest rates.

The Group's fair value interest rate risk relates primarily to its fixed rate secured bank borrowing as disclosed in note 36. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Interest rate sensitivity

At the balance sheet date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by approximately HK$183,000 (2006: loss decrease/increase by approximately HK$105,000).

Credit risk

As at 31 December 2007 and 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial 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 consider that the Group's credit risk is significantly reduced.

The credit risk on pledged bank deposit and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the United States, which accounted for 55% (2006: 19%) of the total trade receivable as at 31 December 2007.

The Group has concentration of credit risk as 40% (2006: 38%) and 86% (2006: 58%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and polices *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings from time to time.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows at 31.12.2007 HK$'000	Carrying amount at 31.12.2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade payables	–	2,116	2,081	–	–	4,197	4,197
Other payables	–	5,188	595	2,502	–	8,285	8,285
Amounts due to fellow subsidiaries	–	2,553	–	–	–	2,553	2,553
Amounts due to directors	–	2,797	–	115	–	2,912	2,912
Amounts due to other related parties	–	–	–	877	–	877	877
Loan from a fellow subsidiary	6	–	37,100	–	–	37,100	35,000
Obligations under finance leases	9	75	223	227	–	525	525
Secured bank borrowing	7	–	13,977	–	–	13,977	13,898
		12,729	53,976	3,721	–	70,426	68,247

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and polices *(Continued)*

***Liquidity risk** (Continued)*

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows at 31.12.2006 HK$'000	Carrying amount at 31.12.2006 HK$'000
2006							
Non-derivative financial liabilities							
Trade payables	–	–	2,688	150	–	2,838	2,838
Other payables	–	3,330	2,084	4,937	–	10,351	10,351
Amounts due to fellow subsidiaries	–	247	3,014	9,023	–	12,284	12,284
Amounts due to directors	–	78	233	1,997	–	2,308	2,308
Amount due to a shareholder	–	–	–	339	–	339	339
Amounts due to other related parties	–	9	26	1,466	455	1,956	1,956
Loans from other related parties	11	–	–	1,342	–	1,342	1,209
Loans from a fellow subsidiary	11	–	–	–	112,446	112,446	92,169
Obligations under finance leases	9	186	564	796	427	1,973	1,973
Secured bank borrowing	6	–	10,628	–	–	10,628	10,000
Other loan	11	–	–	20,307	–	20,307	18,295
		3,850	19,237	40,357	113,328	176,772	153,722

5c. Fair value

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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For the year ended 31 December 2007

6. CAPITAL RISK MANAGEMENT

The Group's objectives to manage its capital are to ensure that entities of the Group will be able to continue as a going concern while maximising the return to shareholders, to support the Group's stability and growth; and to strengthening the Group's financial management capability. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the loans from other related parties, loan from a fellow subsidiary, obligations under finance leases, secured bank borrowing and other loan disclosed in notes 33, 34, 35, 36 and 37, respectively, and total equity.

The Directors review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Directors monitor capital mainly using total debt to equity ratio. The ratio as at 31 December 2007 and 2006 was as follows:

	2007 HK$'000	2006 HK$'000
Total debt[1]	49,423	123,646
Total equity[2]	435,191	(154,709)
Total debt to equity ratio (%)	11	N/A

The Directors considered that the Group maintained a healthy capital ratio as at 31 December 2007 as the total debt to equity ratio was at a relative low level.

Notes:

(1) Total debt equals to sum of loans from other related parties, loan from a fellow subsidiary, obligations under finance leases, secured bank borrowing and other loan.

(2) Total equity equals to all capital and reserves of the Group.

Notes to the Consolidated Financial Statements

7. REVENUE

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

	2007 HK$'000	2006 HK$'000
Sales of goods	180,715	12,845
CG creation and production income	51,300	27,425
Training fee	10,963	9,093
Technical service income	3,131	2,245
Receipts from distribution of digital motion pictures	–	2,929
Rental income from equipment leasing	16	383
	246,125	54,920

Included in revenue for the year ended 31 December 2007 is an amount of HK$132,912,000 (2006: Nil) in respect of goods sold in exchange for an intangible asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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 2007

	CG creation and production HK$'000	Digital content distribution and exhibitions HK$'000	CG training courses HK$'000	Consolidated HK$'000
Revenue				
External sales	51,300	183,862	10,963	246,125
Result				
Segment result	17,499	4,522	1,987	24,008
Unallocated corporate income				10,432
Unallocated corporate expenses				(47,044)
Finance costs				(4,002)
Share of loss of an associate	–	(298)	–	(298)
Discount on acquisition of additional interest in a subsidiary	–	1,342	–	1,342
Gain on dilution of interest in a subsidiary	–	40,130	–	40,130
Profit before tax				24,568
Income tax expense				(3,099)
Profit for the year				21,469

Notes to the Consolidated Financial Statements

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2007

	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	10,892	225,121	2,734	1,354	240,101
Depreciation	2,181	115	351	490	3,137
Allowance for bad and doubtful debts	230	–	–	–	230
Amortisation of prepaid lease payments	68	–	–	–	68
Share-based payments expense (note 40)	–	15,914	–	41,488	57,402

At 31 December 2007

	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	32,156	259,886	6,296	298,338
Interest in an associate	–	424	–	424
Unallocated corporate assets				229,715
Consolidated total assets				528,477
Liabilities				
Segment liabilities	8,367	24,678	6,405	39,450
Unallocated corporate liabilities				53,836
Consolidated total liabilities				93,286

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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$'000	Consolidated HK$'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	–	1,795
Loss for the year				(30,245)

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 payments expense *(note 40)*	–	347	–	5,590	5,937

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

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 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

The Group's three business segments operate in eight main geographical areas, namely the PRC, the United States, Europe, Middle-East, 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 division are located in the PRC, the United States, Singapore, India, and other regions.

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

	2007 HK$'000	2006 HK$'000
The PRC	141,721	18,266
United States	68,073	23,833
Europe	12,962	1,990
Middle-East	12,743	–
Singapore	2,573	4,035
Korea	499	2,941
India	598	107
Other regions	6,956	3,748
	246,125	54,920

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

	Segment assets		Capital additions	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
The PRC	319,816	15,334	236,239	2,945
Hong Kong	204,174	4,751	3,049	524
United States	1,986	3,269	177	–
Singapore	2,501	2,142	636	35
Other regions	–	1,005	–	–
Total	528,477	26,501	240,101	3,504

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For the year ended 31 December 2007

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 10 (2006: 10) Directors were as follows:

		Year ended 31 December 2007				
	Notes	Fees HK$'000	Share–based payments HK$'000	Salaries and other benefits HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive Directors:						
Cao Zhong		120	5,695	1,200	–	7,015
Chen Zheng		480	5,695	1,200	–	7,375
Jin Guo Ping		–	–	1,101	12	1,113
Lu Yi, Gloria	*(a)*	–	20,580	1,120	4	21,704
Xu Qing, Catherine	*(b)*	–	–	792	11	803
		600	31,970	5,413	27	38,010
Non-executive Directors:						
Leung Shun Sang, Tony		120	5,695	–	–	5,815
Deng Wei, David	*(c)*	15	–	–	–	15
		135	5,695	–	–	5,830
Independent non-executive Directors:						
Kwong Che Keung, Gordon		150	569	–	–	719
Bu Fan Xiao		150	569	–	–	719
Hui Hung, Stephen		150	569	–	–	719
		450	1,707	–	–	2,157
		1,185	39,372	5,413	27	45,997

Notes:

(a) Appointed on 20 September 2007.

(b) Resigned on 1 December 2007.

(c) Resigned on 15 February 2007.

No Directors waived any emoluments in the year ended 31 December 2007.

Notes to the Consolidated Financial Statements

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

		Year ended 31 December 2006				
	Notes	Fees HK$'000	Share–based payments HK$'000	Salaries and other benefits HK$'000	Retirement benefits schemes contributions HK$'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

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2006: two) were the Directors whose emoluments are included in the disclosures above. The emoluments of the remaining one (2006: three) highest paid individuals were as follows:

	2007 HK$'000	2006 HK$'000
Share-based payments	11,387	217
Salaries and other benefits	2,560	3,332
Retirement benefits schemes contributions	12	95
	13,959	3,644

Their emoluments were within the following bands:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	–	2
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
HK$2,500,001 to HK$13,500,000	–	–
HK$13,500,001 to HK$14,000,000	1	–
	1	3

10. OTHER INCOME

Other income for the year ended 31 December 2007 mainly includes waiver of interest payable on other loan from Win Real Management Limited and waiver of rental payable to a landlord, 深圳大學文化科技服務有限公司, in the amounts of approximately HK$4,156,000 and HK$3,228,000, respectively.

11. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Loan from a fellow subsidiary	3,402	9,601
Bank borrowing wholly repayable within five years	353	349
Loans from other related parties	152	2,778
Finance leases	92	335
Loan from a shareholder	–	5
Others	3	12
	4,002	13,080

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount of approximately HK$40,130,000 for the year ended 31 December 2007 included (i) approximately HK$40,295,000 from the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US$6.5 million (or equivalent to approximately HK$50,570,000) in January 2007; and (ii) approximately HK$165,000 from the net loss on further dilution of the Group's interest in GDC Technology upon exercise of share options of GDC Technology during the year.

13. GAIN ON DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

The amount 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 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 Shun Sang, Tony, a Director exercised 2,130,000 share options and the Group's effective shareholding interest in GDC Technology further decreased from 85% to 83.3%.

14. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
Current tax:		
Hong Kong	904	–
PRC Enterprise Income Tax ("EIT")	2,195	–
	3,099	–

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements for the year ended 31 December 2006 as the Group had no assessable profit arising in Hong Kong for that year.

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

Notes to the Consolidated Financial Statements

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14. INCOME TAX EXPENSE *(Continued)*

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the PRC and being approved by the relevant PRC tax authority, some subsidiaries in the PRC are eligible for an exemption from PRC EIT 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 in the next three years. However, such exemption for some subsidiaries expired during the year ended 31 December 2007. For the year ended 31 December 2006, no provision for PRC EIT had been made in the consolidated financial statements as those PRC subsidiaries were either exempted from PRC EIT or did not have assessable profit for that year.

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

	2007 HK$'000	2006 HK$'000
Profit (loss) before tax	24,568	(30,245)
Tax calculated at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	4,299	(5,293)
Tax effect of income not taxable for tax purposes	(9,547)	(2)
Tax effect of expenses not deductible for tax purpose	7,430	4,148
Tax effect of tax losses not recognised	674	731
Utilisation of tax losses previously not recognised	(2,058)	–
Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised	2,961	–
Effect of tax exemptions granted to subsidiaries in the PRC	–	224
Effect of different tax rates of subsidiaries operating in other jurisdictions	(436)	192
Others	(224)	–
Income tax expense for the year	3,099	–

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:

	2007 HK$'000	2006 HK$'000
Unrealised profits resulting from intra-group transactions	16,920	6,575
Tax losses that may be carried forward indefinitely	12,808	12,348
	29,728	18,923

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For the year ended 31 December 2007

15. PROFIT (LOSS) FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit (loss) for the year has been arrived at after charging:		
Staff costs, including directors' emoluments *(note 9(a))*:		
– Salaries, wages and other benefits	61,148	24,982
– Retirement benefit scheme contributions	1,624	403
– Shared-based payments expense	57,402	5,937
Total staff costs	120,174	31,322
Less: amounts included in contracts work in progress	(13,612)	(1,791)
government grants	–	(835)
	106,562	28,696
Allowance for bad and doubtful debts	230	1,660
Amortisation of prepaid lease payments	68	–
Auditor's remuneration	1,743	1,572
Depreciation	3,137	5,086
Less: amounts included in contracts work in progress	(1,514)	(1,829)
government grants	(535)	(292)
	1,088	2,965
Exchange loss (gain), net	109	(610)
Cost of inventories recognised as an expense	137,819	7,470
Minimum lease payments under operating leases for land and buildings	6,004	3,318
Less: amounts included in contracts work in progress	(1,917)	(2,278)
	4,087	1,040
Research and development costs	4,432	2,422
and after crediting:		
Gain on disposal of property, plant and equipment	20	453
Interest income	6,252	69

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For the year ended 31 December 2007

16. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006: Nil).

17. EARNINGS (LOSS) PER SHARE

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

	2007 HK$'000	2006 HK$'000
Earnings (loss)		
Earnings for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the year attributable to equity holders of the Company)	18,302	(30,245)

	2007 '000	2006 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,132,828	800,820
Effect of dilutive potential ordinary shares:		
Options	30,608	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	1,163,436	800,820

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

Notes to the Consolidated Financial Statements

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18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Computer equipment HK$'000	Digital cinema equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2006	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
Exchange realignment	1,562	60	1,313	–	10	–	2,945
Additions	2,067	2,392	6,144	–	640	1,519	12,762
Disposals	–	–	(35)	–	–	–	(35)
At 31 December 2007	26,798	4,092	47,699	–	1,109	1,519	81,217
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2006	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
Exchange realignment	1,558	46	1,049	–	5	–	2,658
Provided for the year	304	453	2,233	–	147	–	3,137
Eliminated on disposals	–	–	(35)	–	–	–	(35)
At 31 December 2007	24,879	1,601	39,408	–	549	–	66,437
CARRYING VALUES							
At 31 December 2007	1,919	2,491	8,291	–	560	1,519	14,780
At 31 December 2006	152	538	4,116	–	62	–	4,868

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

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 cinema equipment	10 years
Motor vehicles	5 years

At 31 December 2007, net book values of computer equipment of the Group included an amount of approximately HK$504,000 (2006: HK$1,221,000) in respect of assets held under finance leases. Out of which, computer equipment with carrying values of approximately HK$504,000 (2006: HK$1,094,000) are held under finance lease arrangement with South China International Leasing Company Limited ("South China Leasing"), a subsidiary of the ultimate holding company.

19. INTANGIBLE ASSET

	2007 HK$'000	2006 HK$'000
AT COST AND CARRYING VALUE		
Acquisition during the year and at 31 December	221,545	–

The cost of investment in the intangible asset represents consideration paid for acquisition of the contracted right from a third party to share a specified percentage of the box office receipts from those cinemas in the PRC using the digital cinema equipment partly sold by the Group for exhibition of digital contents. The intangible asset has definite useful life and is amortised on a straight line basis over 10 years.

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20. AVAILABLE-FOR-SALE INVESTMENT

	2007 & 2006 HK$'000
Unlisted equity securities	117
Less: Impairment losses recognised	(117)
	–

At 31 December 2007 and 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 of P&PM, the Group does not have significant influence over P&PM.

21. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
COST		
Addition during the year and at 31 December	5,794	–
AMORTISATION		
Amortisation for the year and at 31 December	68	–
CARRYING VALUE		
At 31 December	5,726	–

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	5,726	–
Analysed for reporting purposes as:		
Current asset	114	–
Non-current asset	5,612	–
	5,726	–

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22. INTEREST IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Cost of investment in an unlisted associate	722	–
Share of post-acquisition loss	(298)	–
	424	–

As at 31 December 2007, the Group had interest in the following associate:

Name of entity	Form of business structure	Country of establishment and operation	Proportion of nominal value of registered capita held by the Group	Principal activity
			(Note)	
中影首鋼環球數碼數字影院建設(北京) 有限公司 CFGDC Digital Cinema Company Limited ("CFGDC")	Sino-foreign equity joint venture	The PRC	49%	Deployment of digital cinema network and related business

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

Notes to the Consolidated Financial Statements

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22. INTEREST IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the Group's associate is set out below:

	2007 HK$'000	2006 HK$'000
Total assets	2,837	–
Total liabilities	(1,972)	–
Net assets	865	–
Group's share of net assets of an associate	424	–
Revenue	2	–
Loss for the year	608	–
Group's share of loss of an associate for the year	298	–

23. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials, net of allowance of approximately HK$135,000 (2006: HK$135,000)	4,395	1,770
Finished goods, net of allowance of approximately HK$597,000 (2006: HK$597,000)	2,366	699
	6,761	2,469

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24. PRODUCTION WORK IN PROGRESS

	Notes	2007 HK$'000	2006 HK$'000
Movie, net of allowance of Nil (2006: Nil)	*(i)*	–	–
Television series, net of allowance of HK$14,615,000 (2006: HK$14,615,000)	*(ii)*	–	–
		–	–

Notes:

(i) The amount represented 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 that year.

Details of the movements are as follows:

	HK$'000
COST	
At 1 January 2006	94,712
Write off	(94,712)
At 31 December 2006 and 31 December 2007	–
ALLOWANCE	
At 1 January 2006	(94,712)
Write off	94,712
At 31 December 2006 and 31 December 2007	–
CARRYING AMOUNT	
At 31 December 2007 and 2006	–

(ii) The amount represents production costs incurred for the television series titled "Panshel's World" (the "TV Series"). As at 31 December 2007, there was a litigation in relation to the co-production of the TV Series, details of which are set out in note 47, 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.

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

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

	2007 HK$'000	2006 HK$'000
Contract costs incurred plus recognised profits less recognised losses	19,137	18,488
Less: progress billings	(19,083)	(19,530)
	54	(1,042)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	1,494	808
Amounts due to customers for contract work	(1,440)	(1,850)
	54	(1,042)

26. TRADE RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables	11,732	7,740
Less: allowance for doubtful debts	(230)	(1,660)
	11,502	6,080

The Group allows 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.

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26. TRADE RECEIVABLES *(Continued)*

The following is an aged analysis of the trade receivables, net of allowance for doubtful debts at the balance sheet date:

	2007 HK$'000	2006 HK$'000
Within three months	9,612	5,514
Three to six months	1,077	519
Over six months	813	47
	11,502	6,080

Before accepting any new customer, the Group uses an external credit information to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Most of the trade receivables that are neither past due nor impaired have the best credit scoring.

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately HK$1,890,000 (2006: HK$566,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the Directors assessed that the balances will be recovered. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2007 HK$'000	2006 HK$'000
Three to six months	1,077	519
Six to nine months	–	47
Nine to twelve months	282	–
Over one year	531	–
Total	1,890	566

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	1,660	521
Impairment losses recognised on receivables	230	1,660
Amounts written off as uncollectible	(1,660)	(521)
Balance at end of the year	230	1,660

Notes to the Consolidated Financial Statements

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26. TRADE RECEIVABLES *(Continued)*

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$230,000 of which the customer did not fully satisfy the quality of products performed by the CG creation and production division and the amount is considered uncollectible.

27. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand.

28. BANK BALANCES/PLEDGED BANK DEPOSIT

Bank balances carry interest rate at prevailing bank saving deposits rate at of 1.5% per annum (2006: 2.5% per annum) and mature within 3 months. Pledged bank deposit represents a deposit pledged to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement. As at 31 December 2007, the deposit carried interest rate of 3.75% per annum.

29. TRADE PAYABLES

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

	2007 HK$'000	2006 HK$'000
Within three months	3,853	2,688
Three to six months	344	150
	4,197	2,838

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

30. AMOUNTS DUE TO FELLOW SUBSIDIARIES AND DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand.

31. AMOUNT DUE TO A SHAREHOLDER

The amount was unsecured, non-interest bearing and was fully settled during the year.

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32. AMOUNTS DUE TO OTHER RELATED PARTIES

	Notes	2007 HK$'000	2006 HK$'000
Amounts due to other related parties – due within one year:			
Mr. Raymond Dennis Neoh	*(a)*	455	575
Global Digital Creations Limited ("GDCL")	*(b)*	422	422
Bright Oceans Corporation (HK) Limited ("Bright Oceans")	*(c)*	–	303
Madam Chan Wing Yee, Betty	*(d)*	–	201
		877	1,501
Amount due to other related party – due after one year:			
Mr. Raymond Dennis Neoh	*(a)*	–	455
		877	1,956

Notes:

(a) The amount due to Mr. Raymond Dennis Neoh, an ex-director and the younger brother of Mr. Anthony Francis Neoh, who is a shareholder of Shougang Grand, is non-interest bearing and is repayable in August 2008. The amount was stated at amortised cost at effective interest rate of 9.8% per annum. During the year, imputed interest expense amounting to approximately HK$152,000 (2006: HK$263,000) was charged to the consolidated income statement.

(b) 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.

(c) Bright Oceans was a shareholder of Shougang Grand. The amount was unsecured, non-interest bearing and was fully settled during the year.

(d) Madam Chan Wing Yee, Betty is the spouse of Mr. Anthony Francis Neoh. The amount was unsecured, non-interest bearing and was fully settled during the year.

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33. LOANS FROM OTHER RELATED PARTIES

	Notes	2007 HK$'000	2006 HK$'000
Madam Chan Wing Yee, Betty	*(a)*	–	1,000
Bright Oceans	*(b)*	–	209
		–	1,209

Notes:

(a) The loan was advanced from Madam Chan Wing Yee, Betty. The loan was unsecured, bore interest at the best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited ("Best Lending Rate") plus 3% per annum and was fully settled during the year.

(b) Bright Oceans was a shareholder of Shougang Grand. The loan was unsecured, bore interest at Best Lending Rate from time to time plus 3% per annum and was fully settled during the year.

34. LOAN FROM A FELLOW SUBSIDIARY

The loan is due from SCG Finance Corporation Limited, a wholly-owned subsidiary of Shougang Grand, which is unsecured, bears interest at 6% per annum and with maturity on 31 December 2008.

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35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Amounts payable under finance leases:				
Within one year	539	1,567	525	1,484
In more than one year but not more than two years	–	504	–	489
	539	2,071	525	1,973
Less: Future finance charges	(14)	(98)	–	–
Present value of lease obligations	525	1,973	525	1,973
Less: Amount due for settlement within 12 months (shown under current liabilities)			(525)	(1,484)
Amount due for settlement after 12 months			–	489

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 2007, the finance lease payable to South China Leasing amounted to approximately HK$525,000 (2006: HK$1,333,000). Interest expense paid to South China Leasing during the year in connection to the finance lease amounted to approximately HK$66,000 (2006: HK$107,000).

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36. SECURED BANK BORROWING

	2007 HK$'000	2006 HK$'000
Secured bank loan	13,898	10,000

During the year, the Group obtained a new bank loan of approximately HK$14 million and repaid a bank loan of approximately HK$10 million in accordance with the repayment terms. The new bank loan raised is secured by pledge of a property of a fellow subsidiary, carries interest at fixed rate of 6.73% (2006: 6.28%) per annum and is repayable within twelve months from the balance sheet date. The proceeds were used as general working capital for the Group.

37. OTHER LOAN

	2007 HK$'000	2006 HK$'000
Win Real Management Limited	–	18,295

The loan was unsecured, bore interest at the Best Lending Rate from time to time plus 3% per annum and was fully settled during the year.

38. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each Authorised:		
At 1 January 2006 and 2007	1,200,000,000	12,000
Increase during the year	1,200,000,000	12,000
At 31 December 2007	2,400,000,000	24,000
Issued and fully paid:		
At 1 January 2006 and 2007	800,820,000	8,008
Issue of shares (Note)	432,000,000	4,320
Exercise of share options	62,425,540	624
At 31 December 2007	1,295,245,540	12,952

Notes to the Consolidated Financial Statements

38. SHARE CAPITAL *(Continued)*

Note: During the year, the Company has issued shares in accordance with one subscription agreement and three placing and subscription agreements which were completed in January 2007, March 2007, May 2007 and July 2007, respectively. The proceeds were used to raise funds for the projects of the Group, to reduce borrowings and to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the Directors at the annual general meetings of the Company held on 26 May 2006 and 6 June 2007, and a special meeting of the Company held on 23 April 2007 and rank pari passu with other shares in issue in all respects.

39. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 14 August 2007, GDC Holdings Limited ("GDC Holdings), a wholly-owned subsidiary of the Company, entered into a subscription agreement with GDC Technology, pursuant to which GDC Holdings has conditionally agreed to subscribe 53,388,178 new shares of GDC Technology at HK$2 per share (the "Subscription") at a consideration of approximately HK$106,776,000. The Subscription was completed on 2 November 2007 and the Group's equity interest in GDC Technology increased from approximately 51.1% to 62.4% thereafter.

The Group appointed Messrs Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group, to assist the Group to ascertain the fair value of the net assets of GDC Technology in relation to the acquisition of additional interest in GDC Technology at the date of completion of the Subscription. Intangible assets, mainly including customer orders and technology, have been identified with aggregate amount of fair value of approximately HK$410 million in accordance with the income approach and replacement cost approach while the fair value of other assets and liabilities of GDC Technology at that time did not have significant difference with their respectively carrying amounts.

Accordingly, discount on acquisition of additional interest in GDC Technology of approximately HK$1,342,000 arose, which represented the excess of the Group's additional interest in the fair values of the net assets of GDC Technology over the cost of the Subscription at the date of completion of the Subscription. In addition, it was resulted in a special reserve in the amount of approximately HK$46,366,000 which represented the difference between the fair value and the carrying amount of the net assets of GDC Technology attributable to the additional interest in GDC Technology being acquired.

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40. SHARE OPTION SCHEME

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 4 August 2013.

An option may be exercised at any time during the period to be determined and notified by the Directors to the grantee but may not be exercised after the expiry of ten years from the date of offer of that opinion. A consideration of HK$1 is payable upon acceptance the offer.

The exercise price is determined by the Directors, and will not be less than the higher of the nominal value of the share on the date of offer, 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.

The share option scheme of GDC Technology ("GDC Technology Share Option Scheme") was adopted pursuant to a resolution passed at the Company's special general meeting held on 19 September 2006 for the primary purpose of providing incentives or rewards to eligible participants for their contribution to GDC Technology, its subsidiaries and its holding companies (including intermediate and ultimate holding companies). The GDC Technology Share Scheme will remain in force for a period of 10 years to 18 September 2016.

Details of the Scheme and GDC Technology Share Option Scheme are disclosed in the section headed "Share Option Schemes" in the Report of the Directors.

During the year, 48,300,000 options (2006: 69,848,380 options) and 19,095,000 options (2006: 26,656,665) options have been granted under the Scheme and GDC Technology Share Option Scheme to the Directors, employees and other participants, respectively.

40. SHARE OPTION SCHEME *(Continued)*

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

				Number of share options			
Category of grantees	Date of grant	Exercise period	Exercise price	Balance as at 1.1.2007	Granted during the year	Exercised during the year	Balance as at 31.12.2007
Directors	6.10.2006	6.10.2006 – 5.10.2009	HK$0.3	42,443,460	–	(33,634,440)	8,809,020
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	–	28,170,000	–	28,170,000
Employees	6.10.2006	6.10.2006 – 5.10.2009	HK$0.3	14,200,000	–	(14,200,000)	–
	22.3.2007	22.3.2007 – 21.3.2010	HK$1.07	–	3,000,000	(700,000)	2,300,000
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	–	2,890,000	(628,000)	2,262,000
	30.10.2007	30.10.2007 – 29.10.2012	HK$2.75	–	9,900,000	–	9,900,000
Other participants	6.10.2006	6.10.2006 – 5.10.2009	HK$0.3	13,204,920	–	(10,704,100)	2,500,820
	4.4.2007	4.4.2007 – 3.4.2010	HK$1.52	–	4,340,000	(2,559,000)	1,781,000
Totals				69,848,380	48,300,000	(62,425,540)	55,722,840

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40. SHARE OPTION SCHEME *(Continued)*

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

Category of grantees	Date of grant	Exercise period	Exercise price	Number of share options: Balance as at 1.1.2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2007
Directors	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	10,563,334	–	(10,560,001)	–	3,333
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	–	17,445,000	–	–	17,445,000
Employees	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	7,466,666	–	(7,466,666)	–	–
	5.10.2006	5.10.2006 – 4.10.2009	HK$0.145	5,313,332	–	–	(750,000)	4,563,332
	2.11.2007	2.11.2007 – 1.11.2012	HK$2.00	–	1,650,000	–	–	1,650,000
Other participants	29.9.2006	29.9.2006 – 28.9.2009	HK$0.145	1,173,333	–	–	–	1,173,333
Totals				24,516,665	19,095,000	(18,026,667)	(750,000)	24,834,998

The following table sets out the movements in the Company's share options during the year ended 31 December 2006:

Category of grantees	Date of grant	Exercise period	Exercise price	Number of share options: Balance as at 1.1.2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2006
Directors	6.10.2006	6.10.2006 – 5.10.2009	HK0.3	–	42,443,460	–	–	42,443,460
Employees	6.10.2006	6.10.2006 – 5.10.2009	HK0.3	–	14,200,000	–	–	14,200,000
Other Participants	6.10.2006	6.10.2006 – 5.10.2009	HK0.3	–	13,204,920	–	–	13,204,920
Totals				–	69,848,380	–	–	69,848,380

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40. SHARE OPTION SCHEME *(Continued)*

The following table sets out the movements in the share options of GDC Technology during the year ended 31 December 2006:

Category of grantees	Date of grant	Exercise price	Exercise period	Number of share options Balance as at 1.1.2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.12.2006
Directors	29.9.2006	HK$0.145	29.9.2006 – 28.9.2009	–	12,693,334	(2,130,000)	–	10,563,334
Employees	29.9.2006	HK$0.145	29.9.2006 – 28.9.2009	–	12,789,998	–	(10,000)	12,779,998
Other Participants	29.9.2006	HK$0.145	29.9.2006 – 28.9.2009	–	1,173,333	–	–	1,173,333
Totals				–	26,656,665	(2,130,000)	(10,000)	24,516,665

The fair value per option of HK$0.013, HK$0.08, HK$0.58, HK$0.86, HK$0.88 and HK$0.83 for options granted on 29 September 2006, 6 October 2006, 22 March 2007, 4 April 2007, 30 October 2007 and 2 November 2007, respectively, were calculated using the Binomial Option Valuation pricing model. The inputs into the model were as follows:

	Share option grant date 29 September 2006	6 October 2006	22 March 2007	4 April 2007	30 October 2007	2 November 2007
Weighted average share price	HK$0.10	HK$0.28	HK$1.07	HK$1.52	HK$2.70	HK$2.34
Exercise price	HK$0.145	HK$0.30	HK$1.07	HK$1.52	HK$2.75	HK$2.00
Expected volatility	32%	87%	89%	97%	68%	51%
Expected life	3 years	3 years	3 years	3 years	5 years	5 years
Risk-free rate	3.77%	3.75%	3.88%	3.89%	3.49%	3.34%
Expected dividend yield	NIL	NIL	NIL	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 have been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

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40. SHARE OPTION SCHEME *(Continued)*

The Group recognised the total expense of approximately HK$57,402,000 (2006: HK$5,937,000) for the year ended 31 December 2007 in relation to share options granted by the Company and GDC Technology.

The share options of the Company and GDC Technology 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.

41. MAJOR NON CASH TRANSACTION

During the year ended 31 December 2007, the Group had goods sold in exchange for an intangible asset in the amount of HK$132,912,000 (2006: Nil).

42. 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:

	2007 HK$'000	2006 HK$'000
Within one year	6,757	1,791
In the second to fifth year inclusive	6,629	3,321
Over five years	3,289	3,905
	16,675	9,017

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

43. 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.

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43. RETIREMENT BENEFITS SCHEME *(Continued)*

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$151,000 (2006: HK$133,000) payable to the Retirement Schemes at 31 December 2007 are included in other payables and accrued charges. There was no forfeited contribution throughout the year (2006: Nil).

44. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure contracted for but not provide in the consolidated financial statements in respect of:		
Acquisition of property, plant and equipment and intangible asset	2,928	–
Investment in an associate	20,954	–
	23,882	–

45. RELATED PARTY TRANSACTIONS

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

	Notes	2007 HK$'000	2006 HK$'000
Rental expense paid to Shougang Grand in respect of an office premises	*(a)*	600	540
Interest expense paid to South China Leasing in respect of obligations under finance leases	*(b)*	66	107
Interest expense payable to Mr. Anthony Francis Neoh	*(c)*	–	2,413

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45. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(a) The transaction was carried out in accordance with the relevant tenancy agreement.

(b) The transaction was carried out in accordance with relevant lease agreements. As disclosed in note 35, the Group had entered into finance lease arrangements with South China Leasing in respect of computer equipment. The relevant carrying values of the computer equipment held under finance leases amounted to approximately HK$504,000 (2006: HK$1,094,000) as at 31 December 2007, as disclosed in note 18.

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

In addition, on 6 July 2006, the Company had 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 the Directors and other members of key management during the year was as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	10,575	5,305
Post-employment benefits	63	36
Share-based payments	50,759	3,965
	61,397	9,306

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 and transactions with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 30 to 36.

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46. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries at 31 December 2007 and 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 2007 %	directly 2006 %	indirectly 2007 %	indirectly 2006 %	Principal activities and place of operation
GDC (BVI) Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	100	100	–	–	Investment holding
GDC Holdings Limited	Incorporated	BVI	521,418,075 ordinary shares of US$0.01 each	–	–	100	100	Investment holding
GDC Asset Management Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	100	100	Investment holding
GDC China Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Investment holding
GDC Digital Cinema Network Limited	Incorporated	BVI	1 ordinary share of US$1 each	–	–	100	–	Inactive
GDC Entertainment Limited ("GDC Entertainment")	Incorporated	BVI	3,510 ordinary shares of US$1 each	–	–	100	100	Inactive
GDC International Limited	Incorporated	Samoa	1 ordinary share of US$1	–	–	100	100	Provision of CG animation creation and production services
GDC Management Services Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1 each	–	–	100	100	Provision of administration and management service
GDC Technology Limited	Incorporated	BVI	232,595,092 ordinary shares of HK$0.10	–	–	61.9	83.3	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology China Limited	Incorporated	BVI	1 ordinary share of US$1	–	–	61.9	83.3	Inactive
GDC Technology (Hong Kong) Limited	Incorporated	Hong Kong	2 ordinary shares of HK$1	–	–	61.9	–	Provision of computer solutions for digital content distribution and exhibitions

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46. PARTICULARS OF SUBSIDIARIES *(Continued)*

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 2007 %	directly 2006 %	indirectly 2007 %	indirectly 2006 %	Principal activities and place of operation
GDC Technology Pte. Ltd.	Incorporated	Singapore	900,000 ordinary shares of S$1.00	–	–	61.9	83.3	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis
GDC Technology (USA), LLC	Incorporated	United States	US$1,000	–	–	61.9	–	Provision of computer solutions for digital content distribution and exhibitions
Shougang GDC Media Holding Limited	Incorporated	Hong Kong	1 ordinary share of HK$1	–	–	100	–	Investment holding
環球數碼媒體科技(上海)有限公司 Institute of Digital Media Technology (Shanghai) Limited	Incorporated	PRC	US$1,300,000	–	–	100	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	Incorporated	PRC	US$35,353,896	–	–	100	100	Provision of CG and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in the PRC
深圳市環球數碼影視文化有限公司	Incorporated	PRC	RMB3,000,000	–	–	100	100	Animation Investment
深圳市環球數碼科技有限公司	Incorporated	PRC	RMB3,000,000	–	–	61.9	83.3	Provision of computer solutions for digital content distribution and exhibitions
深圳市南山區環球數碼培訓學校	School	PRC	RMB200,000	–	–	100	–	Provision of CG and animation training in the PRC
上海環球數碼職業技能培訓學校	School	PRC	RMB200,000	–	–	100	–	Provision of CG and animation training in the PRC

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

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47. LITIGATION

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a wholly-owned subsidiary of the Company, entered into a co-production agreement (the "Co-production Agreement") with 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 Co-production Agreement which entitled GDC Entertainment to terminate the same claim of damages from P&PM and WAMC. Pleadings have not yet been exchanged in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether the arbitrator has jurisdiction to hear the dispute which GDC Entertainment will refer to the arbitrator in the arbitration. The hearing of the application was held on 20 January 2006. Award of the arbitrator was published on the Issue of Jurisdiction on 23 March 2006 dismissing the application, and made an order for costs in GDC Entertainment's favour in respect of the application. Since then, there has been no further step taken by the parties. GDC Entertainment has written to the arbitrator seeking directions for the further conduct of the arbitration, including the service of pleadings in the arbitration. GDC Entertainment is still waiting to hear from the arbitrator as to how she would like to proceed with the arbitration.

The Directors are of the opinions that settlement of the claim 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 2007

48. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Non-current assets		
Interests in subsidiaries	–	–
Amounts due from subsidiaries	304,385	–
	304,385	–
Current assets		
Prepayment, deposits and other receivables	362	807
Bank balances and cash	2,111	60
	2,473	867
Current liabilities		
Other payables and accruals	1,631	4,631
Amounts due to fellow subsidiaries	–	12,284
Amounts due to directors	2,912	2,308
Amount due to other related party	–	303
Loan from other related party	–	208
Loan from a fellow subsidiary – due within one year	35,000	–
	39,543	19,734
Net current liabilities	(37,070)	(18,867)
Total assets less current liabilities	267,315	(18,867)
Non-current liability		
Loan from a fellow subsidiary – due after one year	–	92,169
Net asset (liabilities)	267,315	(111,036)
Capital and reserves		
Share capital	12,952	8,008
Share premium and reserves	254,363	(119,044)
Total equity	267,315	(111,036)

Five Years Financial Summary

For the year ended 31 December 2007

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2003	2004	2005	2006	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	11,478	47,987	32,195	54,920	246,125
(Loss) profit from operations	(28,045)	(125,657)	(68,530)	(17,165)	28,868
Finance costs	(5,255)	(5,545)	(7,675)	(13,080)	(4,002)
Share of loss of an associate	–	–	–	–	(298)
(Loss) profit before tax	(33,300)	(131,202)	(76,205)	(30,245)	24,568
Income tax credit (expense)	151	(25)	(151)	–	(3,099)
(Loss) profit for the year	(33,149)	(131,227)	(76,356)	(30,245)	21,469

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2003	2004	2005	2006	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	146,003	69,060	34,319	26,501	528,477
Total liabilities	77,561	122,621	162,531	181,210	93,286
Net assets (liabilities)	68,442	(53,561)	(128,212)	(154,709)	435,191