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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

This announcement, for which the directors of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company's website at www.gdc-world.com.

* *For identification purpose only*

FINAL RESULTS

The board of directors (the "Board") of the Company is pleased to announce the audited results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004, together with the comparative figures for the year ended 31 December 2003, as follows:

Consolidated Income Statement

For the year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover	3&4	**47,987**	11,478
Cost of sales		**(35,278)**	(8,428)
Allowance for production work in progress	11	**(84,615)**	–
Gross (loss) profit		**(71,906)**	3,050
Other operating income		**101**	814
Distribution costs		**(4,246)**	(1,306)
Administrative expenses		**(33,847)**	(30,603)
Impairment losses recognised in respect of property, plant and equipment	10	**(14,868)**	–
Loss from operations	5	**(124,766)**	(28,045)
Finance costs	6	**(5,545)**	(5,255)
Loss before income tax		**(130,311)**	(33,300)
Income tax (expense) credit	7	**(25)**	151
Net loss for the year		**(130,336)**	(33,149)
Loss per share	9		
Basic		**(16.43 HK cents)**	(4.63 HK cents)
Diluted		**N/A**	N/A

Consolidated Balance Sheet

At 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-current assets			
Property, plant and equipment	10	**14,000**	35,984
Investment securities		**–**	–
Deferred tax assets		**151**	151
		14,151	36,135
Current assets			
Inventories, at cost		**5,523**	3,564
Production work in progress	11	**21,301**	75,666
Trade receivables	12	**18,011**	2,828
Prepayments, deposits and other receivables		**4,435**	5,902
Amount due from a related party		**–**	19
Pledged bank deposit		**2,004**	–
Bank balances and cash		**3,635**	21,889
		54,909	109,868
Current liabilities			
Training fees received in advance		**2,168**	2,255
Trade payables	13	**11,018**	2,566
Other payables and accruals		**20,798**	11,204
Amounts due to directors		**3,037**	416
Amounts due to shareholders		**2,147**	–
Amounts due to related parties		**1,180**	–
Tax liabilities		**25**	–
Loans from shareholders – due within one year		**3,157**	–
Obligations under finance leases – due within one year		**6,796**	7,354
Bank borrowings – due within one year		**31,907**	14,143
Other loans		**19,940**	7,797
		102,173	45,735
Net current (liabilities) assets		**(47,264)**	64,133
Total assets less current liabilities		**(33,113)**	100,268
Non-current liabilities			
Bank borrowings – due after one year		**–**	14,143
Obligations under finance leases – due after one year		**2,211**	6,147
Loans from shareholders – due after one year		**18,237**	11,536
		20,448	31,826
		(53,561)	68,442
Capital and reserves			
Share capital	14	**8,008**	7,800
Share premium and reserves	15	**(61,569)**	60,642
		(53,561)	68,442

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group incurred significant losses of approximately HK$130,336,000 for the year ended 31 December 2004 and the Group had net current liabilities of approximately HK$47,264,000 as at 31 December 2004. Notwithstanding, the directors are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(1) Bank borrowings' restructuring

Up to the date of approval of these financial statements, the Group signed an agreement with a bank to extend the maturity date of a bank loan of RMB13,000,000, or equivalent to approximately HK$12,257,000, from March 2005 to March 2006.

In addition, another bank loan of RMB15,000,000 or equivalent to approximately HK$14,143,000 borrowed from Bank of China, Shenzhen branch, has to be repaid in 3 November 2005. However, the directors are of the opinion that the maturity date is likely to be extended for a further year.

(2) Availability of facility

The amount available to the Group for additional borrowings under the facility granted at 31 December 2004 was approximately HK$9,157,000. The availability of the facility further increased to approximately HK$19,157,000 subsequently.

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

SCG is incorporated in Bermuda as an exempted company with limited liability with its shares listed on the Stock Exchange. Subsequent to 31 December 2004, SCG became the holding company of the Group and the directors are of the opinion that SCG will provide continuous financial support to the Group.

(4) Loans from shareholders

The loan advanced from Mr. Anthony Francis Neoh of approximately HK$18,237,000 has been confirmed by him that he will not seek repayment from the Group within twelve months from 31 December 2004 or a date upon which such repayment would not have material adverse effect on the operation of the Group.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how the results of operations and financial position of the Group are prepared and presented. These new HKFRSs may result in changes in the future as to how the results of operations and financial position of the Group are prepared and presented.

3. TURNOVER

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

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

	2004	2003
	HK$'000	*HK$'000*
Sales of goods	**41,630**	8,599
Training fee	**5,064**	2,577
Rental income from equipment leasing	**1,072**	137
Box office receipts from distribution of digital motion pictures	**93**	93
Franchise fee from digital cinema for use of equipment	**76**	72
CG creation and production income	**52**	–
	47,987	11,478

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions – digital content distribution and exhibitions, the provision of CG training courses and CG creation and production. 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 2004

	Digital content distribution and exhibitions	**CG training courses**	**CG creation and production**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	42,871	5,064	52	47,987
Result				
Segment result	1,601	(9,026)	(105,431)	(112,856)
Unallocated corporate income				17
Unallocated corporate expenses				(11,927)
Loss from operations				(124,766)
Finance costs				(5,545)
Loss before income tax				(130,311)
Income tax expense				(25)
Net loss for the year				(130,336)

For the year ended 31 December 2003

	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	CG creation and production *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Turnover					
External sales	8,901	2,577	–	–	11,478
Inter-segment sales*	2,025	–	–	(2,025)	–
Total	10,926	2,577	–	(2,025)	11,478
Result					
Segment result	(8,824)	(4,078)	(6,408)		(19,310)
Unallocated corporate income					156
Unallocated corporate expenses					(8,891)
Loss from operations					(28,045)
Finance costs					(5,255)
Loss before income tax					(33,300)
Income tax credit					151
Net loss for the year					(33,149)

* Inter-segment sales are charged at prevailing market prices.

(b) Geographical segments

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

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

	2004 ***HK$'000***	2003 *HK$'000*
The PRC, excluding Hong Kong	**29,747**	2,814
India	**1,905**	7,100
Singapore	**5,653**	78
Other regions	**10,682**	1,486
	47,987	11,478

5. LOSS FROM OPERATIONS

	2004 *HK$'000*	2003 *HK$'000*
Loss from operations was arrived at after charging:		
Auditors' remuneration	**874**	1,035
Depreciation	**11,684**	9,717
Less: amounts included in production work in progress	**(6,377)**	(5,704)
	5,307	4,013
Exchange loss, net	**177**	73
Impairment losses recognised in respect of investment securities	**117**	–
Loss on disposal of property, plant and equipment	**84**	–
Minimum lease payments under operating leases for land and buildings	**6,069**	4,708
Less: amounts included in production work in progress	**(1,392)**	(1,158)
	4,677	3,550
Research and development costs	**2,275**	2,845
Staff costs, including directors' emoluments:		
– Salaries, wages and other benefits	**35,590**	30,320
– Retirement benefit scheme contributions	**1,683**	1,101
Total staff costs	**37,273**	31,421
Less: amounts included in production work in progress	**(17,638)**	(17,795)
amounts included in research and development costs	**(2,275)**	(2,845)
	17,360	10,781
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	658
Interest income	**17**	156

6. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**1,895**	1,553
Finance leases	**1,069**	1,330
Loans from shareholders	**1,563**	1,586
Other loans	**807**	470
Convertible note	**–**	134
Amortisation of loan guarantee fee	**863**	743
	6,197	5,816
Less: amounts included in production work in progress	**(652)**	(561)
	5,545	5,255

7. INCOME TAX (EXPENSE) CREDIT

	2004	2003
	HK$'000	*HK$'000*
The income tax expense (credit) comprises:		
Current tax		
– PRC Enterprise Income Tax ("EIT")	**25**	–
Deferred taxation		
– Current year	**–**	(151)
	25	(151)

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

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the PRC and being approved by the relevant PRC tax authority, the subsidiaries in the PRC are eligible for an exemption from PRC 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 of tax rate in the next three years.

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

	2004	2003
	HK$'000	*HK$'000*
Loss before income tax	**(130,311)**	(33,300)
Tax calculated at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	**(22,804)**	(5,828)
Tax effect of income that are not taxable for tax purpose	**(1)**	(24)
Tax effect of expenses that are not deductible for tax purpose	**19,572**	2,554
Tax effect of tax losses not recognised	**5**	1,281
Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised	**1,171**	1,400
Effect of tax exemptions granted to subsidiaries in the PRC	**2,114**	466
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(32)**	–
Income tax expense (credit) for the year	**25**	(151)

8. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK$130,336,000 (2003: HK$33,149,000) and the weighted average of 793,197,377 shares (2003: 715,903,027 shares) in issue during the year.

No diluted loss per share has been calculated for the year ended 31 December 2004 as the exercise of the share options would result in a decrease in the loss per share. Diluted loss per share was not presented for the year ended 31 December 2003 because there was no potential ordinary shares in existence for that year.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Equipment, furniture and fixtures *HK$'000*	Computer equipment *HK$'000*	Digital film encoders and servers *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
THE GROUP							
COST							
At 1 January 2004	16,909	1,067	30,534	1,914	1,022	4,684	56,130
Additions	16	198	4,838	–	–	–	5,052
Transfer	4,684	–	–	–	–	(4,684)	–
Disposals	–	–	(4)	–	(570)	–	(574)
At 31 December 2004	21,609	1,265	35,368	1,914	452	–	60,608
DEPRECIATION							
At 1 January 2004	4,215	396	15,016	319	200	–	20,146
Provided for the year	2,157	237	9,047	96	147	–	11,684
Impairment losses	14,868	–	–	–	–	–	14,868
Eliminated on disposals	–	–	(4)	–	(86)	–	(90)
At 31 December 2004	21,240	633	24,059	415	261	–	46,608
NET BOOK VALUES							
At 31 December 2004	369	632	11,309	1,499	191	–	14,000
At 31 December 2003	12,694	671	15,518	1,595	822	4,684	35,984

Due to a disfurnishment notice from the PRC government to the landlord for which the premises were rented by the Group, the directors considered that the relevant leasehold improvements were fully impaired and impairment losses of approximately HK$14,868,000 (2003: Nil) were identified and charged to the consolidated income statement.

At 31 December 2004, the cost and accumulated depreciation and depreciation charge for the year of computer equipment and digital film encoders and servers of the Group held for use in operating leases are analysed as follows:

	Computer equipment		Digital film encoders and services	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cost	**583**	490	**957**	957
Accumulated depreciation	**(367)**	(134)	**(256)**	(160)
	216	356	**701**	797
Depreciation charge for the year	**233**	112	**96**	96

At 31 December 2004, net book values of computer equipment and motor vehicles of the Group included amounts of approximately HK$4,996,000 (2003: HK$10,239,000) and HK$86,000 (2003: HK$150,000) respectively in respect of assets held under finance leases.

11. PRODUCTION WORK IN PROGRESS

	Notes	**2004**	2003
		HK$'000	*HK$'000*
Movie, net of allowance of approximately HK$70,000,000 (2003: Nil)	(i)	**20,340**	75,666
Television series, net of allowance of approximately HK$14,615,000 (2003: Nil)		**–**	–
Others	(ii)	**961**	–
		21,301	75,666

Notes:

(i) The amount represents production costs incurred for the film titled "Thru the Moebius Strip" (the "Film"), a movie project currently under production by the Group. Having regard to the latest production status of the Film, projected sales estimated by the Group's sales agents and the uncertainty in finalising distribution/licence agreements among the potential markets on a timely basis, the directors have made an allowance of approximately HK$70,000,000 (2003: Nil) for the year and in their opinion that the production costs incurred as at 31 December 2004, net of allowance, are fully recoverable.

(ii) The amount represents production costs incurred for the television series titled "Panshel's World" (the "TV Series"). As at 31 December 2004, there was a litigation in relation to the co-production of the TV Series, the directors have considered that recoverability in these circumstance for the production costs already incurred and a full allowance of approximately HK$14,615,000 (2003: Nil) was made.

12. TRADE RECEIVABLES

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

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

	2004	2003
	HK$'000	*HK$'000*
Within three months	**16,545**	2,699
Three to six months	**1,070**	13
Over six months	**396**	116
	18,011	2,828

13. TRADE PAYABLES

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

	2004	2003
	HK$'000	*HK$'000*
Within three months	**10,257**	2,170
Three to six months	**744**	396
Over six months	**17**	–
	11,018	2,566

14. SHARE CAPITAL

	Notes	**Number of shares**	**Nominal value** *HK$'000*
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2003 and 31 December 2003 and 2004		1,200,000,000	12,000
Issued and fully paid:			
At 1 January 2003		40,000,000	400
Issue of shares to pre-listing investors	(a)	3,247,992	32
Issue of shares by placing and public offer	(b)	66,300,000	663
Capitalisation issue	(b)	670,452,008	6,705
At 31 December 2003		780,000,000	7,800
Issue of shares by placing	(c)	20,820,000	208
At 31 December 2004		800,820,000	8,008

Notes:

(a) On 25 and 26 June 2003, the Company allotted and issued 945,311 and 2,302,681 shares of the Company of HK$0.01 each to two pre-listing investors at cash considerations of HK$11,700,000 and HK$28,500,000, respectively. The excess of the aggregated cash consideration over the nominal value of shares of HK$40,168,000 was credited to the share premium account of the Company. The shares were issued for the purpose of raising additional capital to finance its operation.

(b) On 1 August 2003, the Company allotted and issued 66,300,000 shares of the Company of HK$0.01 each to investors through the placing and public offer at HK$1.00 per share, for cash consideration of HK$66,300,000. The excess of the aggregate cash consideration over the nominal value of shares of HK$65,637,000 was credited to the share premium account of the Company. The shares were issued for the purpose of raising additional capital to finance its operation.

On the same date, 670,452,008 shares were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company in proportion to their respective shareholdings at the close of business on 1 August 2003 by way of capitalisation of the sum of approximately HK$6,705,000 standing to the credit of the share premium account of the Company. The shares were issued for the purpose of raising additional capital to finance its operation.

(c) On 14 May 2004, the Company allotted and issued 20,820,000 shares of the Company of HK$0.01 each to investors through the placing at HK$0.42 per share, for cash consideration of HK$8,744,000. The excess of the aggregated cash consideration over the nominal value of shares and net of issuance costs of HK$8,139,000 was credited to the share premium account of the Company. The share were issued for the purpose of raising additional capital to finance its operation.

The new shares issued rank pari passu with existing shares in all respects.

15. SHARE PREMIUM AND RESERVES

	Share premium account *HK$'000*	**Share issuance costs** *HK$'000* *(Note a)*	**Contributed surplus** *HK$'000* *(Note b)*	**Statutory reserve** *HK$'000* *(Note c)*	**Exchange reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2003	–	(4,465)	40,271	415	48	(31,242)	5,027
Issue of shares to pre–listing investors	40,168	–	–	–	–	–	40,168
Issued of shares by placing and public offer	65,637	–	–	–	–	–	65,637
Capitalisation issue	(6,705)	–	–	–	–	–	(6,705)
Share issuance costs	–	(10,336)	–	–	–	–	(10,336)
Transfer to share premium account	(14,801)	14,801	–	–	–	–	–
Net loss for the year	–	–	–	–	–	(33,149)	(33,149)
Transfer to statutory reserve	–	–	–	123	–	(123)	–
At 31 December 2003 and 1 January 2004	84,299	–	40,271	538	48	(64,514)	60,642
Exchange differences on translation of overseas operations not recognised in the consolidated income statement	–	–	–	–	(14)	–	(14)
Issue of shares	8,536	–	–	–	–	–	8,536
Share issuance costs	(397)	–	–	–	–	–	(397)
Net loss for the year	–	–	–	–	–	(130,336)	(130,336)
Transfer to statutory reserve	–	–	–	142	–	(142)	–
At 31 December 2004	92,438	–	40,271	680	34	(194,992)	(61,569)

Notes:

(a) The share issuance costs were written off against the share premium account upon the listing of the Company's shares on the GEM.

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

(c) As stipulated by the rules and regulations in the PRC, foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. 環球數碼媒體科技(深圳)有限公司 ("IDMT Shenzhen") and 環球數碼媒體科技(上海)有限公司, wholly-foreign owned enterprises established in the PRC, are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their share capital thereafter any further appropriation is optional and is determinable by the companies' board of directors. The statutory reserve as at 31 December 2004 represents general reserve fund of IDMT Shenzhen of approximately HK$680,000 (2003: HK$538,000) which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Business Objectives from 1 January 2003 to 31 December 2003 as stated in the Prospectus (only limited to those which have not been fulfilled in full as stated in the annual report of the Company for the financial year ended 31 December 2003)	Actual Business Progress
CG creation and production	1. Complete *Thru the Moebius Strip* production and premiere.	1. The production of *Thru the Moebius Strip* was completed in May 2004 and was officially launched in the Cannes Film Festival in the same month.
	2. Sign up a US distributor for *Thru the Moebius Strip*.	2. GDC entered into a sales agency agreement (which was terminated in the second half of 2004) with Senator International Inc. in respect of the distribution of *Thru the Moebius Strip* in the US. GDC also received offers for distribution of Thru the Moebius in the US.
	3. Pre-sell *Thru the Moebius Strip* to markets other than the US.	3. GDC pre-sold *Thru the Moebius Strip* to 7 markets other than the US. GDC also received offers from distributors from the rest of the world.
	4. Set up a merchandising arm and begin licensing of merchandise in the PRC market and other target markets.	4. GDC set up a merchandising arm and started to license its products in PRC and other target markets in 2004.
	5. Begin development of prototype of *Thru the Moebius Strip* and *Sandman* console games in the US with Equinoxe.	5. GDC commenced the development of *Thru the Moebius Strip* game in house with other partners including Gameone Online Entertainment Group Limited ("Gameone").

	6. Publish the first issue of CG, games and digital cinema print and e-magazine.	6. Instead of publishing the print version of CG, games and e-magazine, GDC started an online forum in relation to these topics. In addition, GDC published three textbooks relating CG in PRC.
	7. Finalise the appointment of Overseas Chinese Town as merchandising agent of GDC in the PRC.	7. Overseas Chinese Town was appointed as the merchandising agent of GDC in PRC.
	8. Begin pre-production of sequel to *Thru the Moebius Strip*.	8. Not yet begun.
	9. Begin first comic strip based on *Thru the Moebius Strip*.	9. Not yet begun.
	10. Begin development of next online game and localization of Korean and Japanese games.	10. GDC set up a joint venture with Gameone to develop its next online game to be released in the third quarter of 2005.
	Business Objectives from 1 January 2004 to 30 June 2004 as stated in the Prospectus	**Actual Business Progress**
CG creation and production	1. Launch localized Korean and Japanese on-line games in Greater China market.	1. Not yet launched.
	2. Complete development of *Thru the Moebius Strip* and *Sandman* console games for publisher.	2. GDC commenced the development of *Thru the Moebius Strip* game in house with other partners including Gameone.
	3. Begin development of next prototypes.	3. GDC commenced the development of a new online game with Gameone.
	4. Market DVDs for Thru the Moebius Strip.	4. Not yet begun.
	5. Complete *The New Adventures of Raggedy Ann & Andy series* and begin work on next series.	5. WAWC did not have the rights of this series and therefore GDC decided not to pursue on development of this series.

	6. Begin production of sequel of *Thru the Moebius Strip*.	6. In progress.
Digital content distribution and exhibitions	1. Further supply digital cinema equipment to Adlabs.	1. As Mukta Adlabs Digital Exhibition Limited ("Adlabs") did not meet the target of installing 400 servers for the year ended 31 December 2004, Adlabs temporarily stopped placing order of new servers from GDC Technology in 2004 until the completion of the upgrade of digital projector from a single chip to a 3-chip DLP projector. GDC Technology continues its discussion with Adlabs in relation to the supply of new servers. On the other hand, GDC Technology expanded its market share in India by retrofitting 5 cinemas in Southern India with GDC Technology's digital servers in 2004.
	2. Continue with research and development for interactive digital cinema.	2. Ongoing.
	3. Sign up around 80 digital cinemas in the PRC and the rest of Asia, such as Singapore and Hong Kong.	3. The launch of further D-cinemas under the franchise model is currently delayed due to lack of fund. As of 1 March 2005, China Film Group has retrofitted more than 160 digital cinemas and is inviting third party to participate in its D-cinema franchise. One of our competitors, EVS, spun-out XDC and raised £9 million in the fourth quarter of 2004 to deploy the European digital cinema network. Similar to GDC's IPO plan, XDC aims to digitise 500 cinema screens over the next two years. At the same time, XDC plans to enter into Asian and American markets through its subsidiary XDC Inc.

Provision of CG training courses	1. Continue to run the CG training courses in Shenzhen and Shanghai, the PRC.	1. GDC continued to run the CG training courses in Shenzhen and Shanghai.

	Business Objectives from 1 July 2004 to 31 December 2004 as stated in the Prospectus	**Actual Business Progress**
CG creation and production	1. Complete production of first part of sequel to *Thru the Moebius Strip*.	1. In progress.
	2. Launch further on-line games in Greater China market.	2. Not yet launched.
	3. Begin pre-production of next film.	3. Not yet begun.
Digital content distribution and exhibitions	1. Further supply digital cinema equipment to Adlabs.	1. As Adlabs did not met the target of installing 400 servers for the year ended 31 December 2004, Adlabs temporarily stopped placing order of new servers from GDC in 2004 until the completion of upgrade of digital projector from a single chip to a 3-chip DLP projector. To date, GDC Technology continues its discussion with Adlabs in relation to the supply of new servers. On the other hand, GDC Technology expanded its market share in India by retrofitting 5 cinemas in Southern India with GDC Technology's digital servers in 2004.

	2. Sign up further digital cinemas to reach a total of around 150 in the PRC and around 100 in rest of Asia, such as Singapore and Hong Kong.	2. The launch of further D-cinemas under the franchise model is currently delayed due to lack of fund. As of 1 March 2005, China Film Group has retrofitted more than 160 digital cinemas and is inviting third party to participate in its D-cinema franchise. One of our competitors, EVS, spun-out XDC and raised £9 million in the fourth quarter of 2004 to deploy the European digital cinema network. Similar to GDC's IPO plan, XDC aims to digitise 500 cinema screens over the next two years. At the same time, XDC plans to enter into Asian and American markets through its subsidiary XDC Inc.
	3. Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system).	3. Ongoing.
Provision of CG training courses	1. Commence the 5th CG training course in Shenzhen, the PRC and the 2nd CG training course in Shanghai, the PRC.	1. GDC commenced the 5th CG training course in Shenzhen, the PRC and the 2nd CG training course in Shanghai.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

The net amount of IPO Proceeds, after deduction of related commission and expenses, amounted to approximately HK$53.3 million. A comparison of the proposed usage of IPO Proceeds made in the Prospectus against the actual usage for the year ended 31 December 2004 is set out as follows.

Application of proceeds	Proposed usage	Actual usage up to 31 December 2004	Difference
	HK$ mil	*HK$ mil*	*HK$ mil*
Strengthening management and international marketing team	4.9	4.6	(0.3)
Developing digital cinema distribution network	18.5	4.0	(14.5)
Research and development of digital cinema technologies	7.2	8.3	1.1
Production maintenance and co-financing	5.6	31.8	26.2
Working capital	2.5	4.6	2.1
Total	38.7	53.3	14.6

Reasons for the decreased usage of IPO Proceeds in developing digital cinema distribution network

Since the publication of the Prospectus, the Group experienced certain changes in the market conditions brought about by technological advancement in the D-cinema marketplace. As stated in the section headed "Statement of business objectives" in the Prospectus, the Group had, under the franchise business model, originally targeted the signing up to around 50 and 25 cinemas in the PRC and the rest of Asia respectively for the supply of digital projection and playback equipment by the end of 31 December 2004. The decrease in the amount spent on developing digital cinema distribution network was due to the Group's delay in the implementation of the franchise business model for D-cinemas in the PRC and the rest of Asia for the reasons set forth below.

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

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

Reasons for increased usage of IPO Proceeds in production maintenance and co-financing

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

Since the pre-sale revenue of the Film did not materialise in late 2004, the Company had additional cash resources from IPO proceeds, (which would have been substantially financed from the pre-sale proceeds of the Film), to inter-alia, carry out the abovementioned work required for the completion of the Film.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover of the Group amounted to approximately HK$48 million for the year ended 31 December 2004 (2003: HK$11 million), representing an increase of approximately 318% compared to that of last year. But for allowances of HK$84.6 million and an impairment loss of HK$14.9 million details of which are given below, the operating loss for the year ended 31 December 2004 decreased somewhat from HK$28 million at year end of 2003 to HK$25.3 million by year end of 2004 representing slight overall improvement in operations. With the allowances of HK$84.6 million and the impairment loss of HK$14.9 million, the total losses come to HK$130.3 million, compared to losses of HK$33 million at year end in 2003. The Board of Directors of the Company (the "Directors" or "Board") do not recommend the payment of a final dividend for the year ended 31 December 2004.

The increase in turnover was mainly derived from the continuous increase in sales of digital cinema servers and associated digital cinema equipment following the successful commercialization of these products last year. Although the potential of the computer graphics side of the Group's business continues to show good promise, revenues have not increased much from 2003, due to the later than expected launch of the Film *Thru the Moebius Strip* in the American Film Market, in 2004. The Group however expects the Film to be released in 2005. The Group expects to enter into various services contracts in 2004 and therefore expect a higher turnover for the computer graphics side of the business in 2005.

During the year under review, allowances of approximately HK$84.6 million were made for the Group's production work in progress which comprised mainly costs incurred for the film of *Thru the Moebius Strip* (the "Film") and a TV series *Panshel's World* (the "TV series"). Whilst the directors consider that the prospects for full recovery of the investment in the Film remain good, they consider that the most reasonable way forward is to recognise only such part of the investment as is reflected by contracts already signed and revenues which they expect can be recognised in the accounts within the next twelve months. In relation to Panshel, in view of the litigation now underway in France, the directors consider at this stage to provide for the entire amount of the production work in progress. The directors remain hopeful that there will be a resolution of the disputes between GDC and the French Co-producers and work will the proceed to fully exploit the economic value of the television series. Impairment losses of HK$14.9 million due to a disfurnishment notice issued by the PRC government to the landlord of the Group Shenzhen's premises represents loss of the unamortised portion of the cost of fitting out the premises for which the Group has a valid lease to 2010. Discussions are underway for compensation from the landlord. Discussions are also underway with the Shenzhen Municipal Government, which has recognised the Group's Shenzhen Studios as an advanced technology business, for subsidies and free or low rental premises for the move. The directors do not expect that the operations of the studio will be adversely affected by the move.

Following the initial marketing of the film in 2004 when the first cut was completed, various market feedback have been incorporated in an enhanced version of the Film. In addition, further to the disclosure in the response document of the Company in respect of the voluntary share exchange offer made by Upper Nice Assets Ltd, a member of Shougang Concord Grand (Group) Limited which is listed on the main board of the Stock Exchange, in January 2005, the Group had received a revised claim from a party under the co-production agreement for the TV series. Based on the advice from the Group's French legal adviser, an allowance of approximately HK$14.6 million was made for carrying value of the TV series as at 31 December 2004. Further details are set out in the Section dealing with litigation.

Business review

Turnover generated from the digital content distribution and exhibition business which comprised sales revenue of D-cinema products, rental income from equipment leasing, and franchise fee from digital cinema amounted to approximately HK$42.9 million for the year ended 31 December 2004 (2003: HK$8.9 million), representing an increase of approximately 382% and represented approximately 89% of the Group's turnover during the year under review. The increase was largely due to the finalization of sale contracts the successful commercialization of these products with mainly customers in the PRC and Europe, which negotiation were initiated following the successful commercialization of these products in 2003.

The Group continued to record revenue from the CG training courses in Shenzhen and Shanghai, the PRC which are operating in cooperation with Shenzhen University and University of Shanghai for Science and Technology respectively. Turnover from CG training increased by approximately 96% to approximately HK$5.1 million for the year ended 31 December 2004 (2003: HK$2.6 million), represented approximately 11% of the Group's turnover during the year under review. The increase was mainly attributable to the expansion of the Group's CG training centre in Shanghai in terms of the number of students served and courses offered during the year under review

The Film is due for release in the second half 2005 and it is expected that the Company will begin to be able to recognise income from release of the Film in 2005. With the quality of the Group's CGI production being recognised through the Film, the Group is undertaking discussions with many parties on jobs for hire and co-productions. Two co-production agreements contingent on confirmation of financing by the other contracting party have been signed.

Liquidity and Financial Resources

The Group had bank balances and cash and pledged bank deposits of approximately HK$5.6 million as at 31 December 2004 (2003: HK$21.9 million) which were mainly denominated in Hong Kong dollars and Renminbi. The decrease was mainly utilized in funding the current year's loss making operations.

The Group's borrowings amounted to approximately HK$88.6 million as at 31 December 2004 which comprised approximately HK$68.2 million and HK$20.4 million repayable within one year and repayable more than one year as at 31 December 2004 respectively. There was no gearing ratio (calculated as bank and other borrowings less bank balances and cash and pledged bank deposits divided by shareholders' fund) presented as the Group recorded capital deficiency as at 31 December 2004 (2003: 58%).

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

Use of placement proceeds

On 14 May 2004, the Company allotted and issued 20,820,000 new shares of the Company to independent third parties through the placing at HK$0.42 per share for a cash consideration of HK$8.7 million pursuant to the placing and subscription agreement entered into by the Company on 3 May 2004. The net proceeds of HK$8.3 million have been fully applied for general working capital of the Group as originally intended.

Charge on assets

As at 31 December 2004, pledged bank deposits, trade receivables and computer equipment and motor vehicles with carrying value of approximately HK$2 million, HK$2.5 million and HK$5.1 million respectively and the Group's entire interests in the registered capital of IDMT (Shenzhen) Limited, a wholly owned subsidiary of the Group, were pledged to certain financial institutions to secured certain financing facilities granted to the Group

Capital structure

As at 31 December 2004, the Group recorded capital deficiency of approximately HK$53.6 million which was mainly financed by internal resources, bank and other borrowings. The capital deficiency was mainly arisen from the loss of approximately HK$130.3 million incurred during the year under review.

Contingent liabilities

The Company has given guarantees to banks and other parties in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 December 2004 amounted to approximately HK$38.1 million (2003: HK$36.1 million).

Litigation

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

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

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

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

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

On 10 March 2005, the Group's French legal adviser advised that the chances to recoup the totality of the investment are uncertain and in any event, the sums owed to GDC Entertainment will be recoupable only in the last position pursuant to the Co-production Agreement. As a result, full allowance of approximately HK$14.6 million which represented the carrying value of the production in progress of the animated television series produced by the Group under the Co-production Agreement as at 31 December 2004, has been made.

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

EMPLOYEES

As at 31 December 2004, the Group employed 339 (2003: 335) 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.

INTEREST OF SPONSOR

As updated and notified by the Company's sponsor (the "Sponsor"), Goldbond Capital (Asia) Limited, as at 31 December 2004, none of the Sponsor itself, its directors, employees or associates (as defined in Note 3 to GEM Listing Rule 6.35) had any interests in the securities of the Company.

Pursuant to the agreement dated 23 July 2003 entered into between the Company and the Sponsor, the Sponsor is entitled to receive an advisory fee for acting as the Company's retained sponsor for the period from 4 August 2003 to 31 December 2005.

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

There was no purchase, sales or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the GEM Listing Rules 5.34 to 5.45 concerning board practices and procedures throughout the year.

AUDIT COMMITTEE

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

The audit committee, comprising two independent non-executive directors and one non-executive director, met four times during the financial year. During the meetings, the audit committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group, connected transactions and discussed with management the auditing, internal control and financial reporting matters.

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

By Order of the Board
Global Digital Creations Holdings Limited
Raymond Dennis Neoh
Vice-chairman

Hong Kong, 15 April 2005

* *For identification purpose only*