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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 (the "Directors") of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement 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 announcement misleading; and (iii) 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.

* *For identification purpose only*

The board of Directors (the "Board") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the six months ended 30 June 2006, together with the unaudited comparative figures for the corresponding periods in 2005, which are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2006

		Three months ended 30 June		**Six months ended 30 June**	
		2006	2005	**2006**	2005
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	*3*	**9,682**	4,570	**18,323**	10,320
Cost of sales		**(6,174)**	(8,567)	**(11,248)**	(11,935)
Allowance for production work in progress		**(125)**	–	**(125)**	–
Gross profit (loss)		**3,383**	(3,997)	**6,950**	(1,615)
Rental expense written back		**–**	–	**–**	3,394
Other income		**109**	240	**294**	257
Distribution costs		**(1,561)**	(528)	**(3,887)**	(1,618)
Administrative expenses		**(7,152)**	(7,570)	**(16,049)**	(17,690)
Finance costs	*5*	**(3,383)**	(1,823)	**(6,151)**	(3,443)
Loss before taxation		**(8,604)**	(13,678)	**(18,843)**	(20,715)
Income tax expense	*6*	**–**	(360)	**–**	(360)
Loss for the period and attributable to ordinary equity holders of the Company		**(8,604)**	(14,038)	**(18,843)**	(21,075)
		HK cents	*HK cents*	***HK cents***	*HK cents*
Loss per share	*8*				
Basic		**(1.07)**	(1.75)	**(2.35)**	(2.63)
Diluted		**N/A**	N/A	**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	9	**5,494**	6,301
Available-for-sale investment		**–**	–
		5,494	6,301
Current assets			
Inventories, at cost		**1,089**	1,157
Production work in progress	10	**1,344**	951
Trade receivables	11	**1,249**	3,664
Prepayments, deposits and other receivables		**1,777**	2,124
Pledged bank deposits		**–**	16,455
Bank balances and cash		**5,095**	3,667
		10,554	28,018
Current liabilities			
Income received in advance		**6,220**	2,725
Trade payables	12	**886**	1,065
Other payables and accruals		**21,482**	23,615
Amounts due to fellow subsidiaries		**8,420**	18,783
Amounts due to directors		**1,681**	2,116
Amounts due to shareholders		**339**	339
Amounts due to related parties		**5,851**	5,125
Loan from a fellow subsidiary		**79,385**	43,983
Loans from related parties		**22,078**	22,457
Obligations under finance leases – due within one year		**2,749**	3,468
Bank borrowings – due within one year	13	**11,162**	27,210
Other loans		**1,334**	8,243
		161,587	159,129
Net current liabilities		**(151,033)**	(131,111)
Total assets less current liabilities		**(145,539)**	(124,810)
Non-current liabilities			
Obligations under finance leases – due after one year		**853**	1,907
Amount due to a related party – due after one year		**806**	1,495
		1,659	3,402
		(147,198)	(128,212)
Capital and reserves			
Share capital	14	**8,008**	8,008
Share premium and reserves		**(155,206)**	(136,220)
		(147,198)	(128,212)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Share Capital (Unaudited) *HK$'000*	Share premium account (Unaudited) *HK$'000*	Capital contribution reserve (Unaudited) *HK$'000*	Contributed surplus (Unaudited) *HK$'000*	Statutory reserve (Unaudited) *HK$'000*	Exchange reserve (Unaudited) *HK$'000*	Accumulated losses (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
At 1 January 2006	**8,008**	**92,438**	**445**	**40,271**	**680**	**(44)**	**(270,010)**	**(128,212)**
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**(143)**	**–**	**(143)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(18,843)**	**(18,843)**
Total recognised expenses for the period	**–**	**–**	**–**	**–**	**–**	**(143)**	**(18,843)**	**(18,986)**
At 30 June 2006	**8,008**	**92,438**	**445**	**40,271**	**680**	**(187)**	**(288,853)**	**(147,198)**
At 1 January 2005	8,008	92,438	–	40,271	680	34	(194,992)	(53,561)
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	15	–	15
Loss for the period	–	–	–	–	–	–	(21,075)	(21,075)
Total recognised income (expenses) for the period	–	–	–	–	–	15	(21,075)	(21,060)
Sub-total	8,008	92,438	–	40,271	680	49	(216,067)	(74,621)
Transfer to statutory reserve	–	–	–	–	281	–	(281)	–
At 30 June 2005	8,008	92,438	–	40,271	961	49	(216,348)	(74,621)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(6,852)**	(13,336)
Net cash generated from (used in) investing activities	**14,648**	(257)
Net cash (used in) generated from financing activities	**(4,118)**	14,223
Net increase in cash and cash equivalents	**3,678**	630
Cash and cash equivalents at 1 January	**1,417**	1,579
Cash and cash equivalents at 30 June	**5,095**	2,209
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**5,095**	4,941
Secured bank overdrafts	**–**	(2,732)
	5,095	2,209

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accounts (the "HKICPA").

The Group incurred losses of approximately HK$18,843,000 for the six months ended 30 June 2006 and the Group had net current liabilities of approximately HK$151,033,000 and net liabilities of approximately HK$147,198,000 as at 30 June 2006. 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) Availability of facilities

The amount available to the Group for borrowings under the facilities granted by SCG Finance Corporation Limited ("SCG Finance"), a wholly–owned subsidiary of Shougang Concord Grand (Group) Limited ("SCG"), the Group's holding company incorporated in Bermuda as an exempted company with limited liability and with its securities listed on the Stock Exchange, at 30 June 2006 is HK$100,000,000 and is available up to 31 December 2006, in which approximately HK$79,385,000 is utilised as at 30 June 2006.

The Directors are of the opinion that SCG Finance would further extend the repayment date of the loan such that the repayment would not have a material adverse effect on the operations of the Group.

(2) Financial support

Both SCG and the controlling shareholder of SCG, Shougang Holding (Hong Kong) Limited, have committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue the Group's operations for a period of twelve months from 20 April 2006, the day of the Group's annual report for the year 2005. The Directors are of the opinion that SCG and/or Shougang Holding (Hong Kong) Limited will provide continuous support to the Group after then.

2. Significant Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate. The accounting policies used in these condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

Subcontracting revenue from computer graphic creation and production

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

In the current period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Report Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005. The application of the new and revised HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these Standards and Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosure[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK (IFRIC) – INT 8	Scope of HKFRS 2[3]
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]

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

3. Revenue

Revenue represents computer graphic ("CG") creation and production income, the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on training fee, technical service fee, rental income from leasing of equipment and franchise fee and during the period. An analysis of the Group's revenue is as follows:

	Three months ended 30 June		**Six months ended 30 June**	
	2006	2005	**2006**	2005
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
CG Creations and production income	**5,867**	1,042	**9,568**	1,094
Sales of goods	**1,675**	1,897	**4,421**	5,778
Training fee	**1,961**	1,138	**3,887**	2,663
Technical service income	**76**	478	**225**	519
Rental income from equipment leasing	**103**	15	**222**	247
Franchise fee from digital cinema for use of equipment	**–**	–	**–**	19
	9,682	4,570	**18,323**	10,320

4. **Segment Information**

(a) **Business segments**

For management purposes, the Group is currently organised into three operating divisions – CG creation and production, distribution and exhibitions of digital content 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 six months ended 30 June 2006 (Unaudited)

	CG creation and production *HK$'000*	**Digital content distribution and exhibitions** *HK$'000*	**CG training courses** *HK$'000*	**Consolidated** *HK$'000*
Revenue				
External Sales	**9,568**	**4,868**	**3,887**	**18,323**
Result				
Segment result	**(4,409)**	**(6,330)**	**(34)**	**(10,773)**
Unallocated corporate income				**46**
Unallocated corporate expenses				**(1,965)**
Finance costs				**(6,151)**
Loss before taxation				**(18,843)**
Income tax expense				**–**
Loss for the period				**(18,843)**

For the six months ended 30 June 2005 (Unaudited)

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Consolidated *HK$'000*
Revenue				
External Sales	1,094	6,563	2,663	10,320
Result				
Segment result	(10,320)	(5,168)	(84)	(15,572)
Unallocated corporate income				–
Unallocated corporate expenses				(1,700)
Finance costs				(3,443)
Loss before taxation				(20,715)
Income tax expense				(360)
Loss for the period				(21,075)

(b) Geographical segments

The Group's three business segments operate in five main geographical areas, namely the United States of America ("USA"), the People's Republic of China excluding Hong Kong (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 CG training facilities are located in the PRC. Clients of the Group's CG creation and production business are mainly located in USA and customers of the Group's digital content distribution and exhibitions business are located in the PRC, India, Singapore and other regions.

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

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
USA	**8,873**	424
The PRC	**4,658**	4,663
Singapore	**1,429**	85
India	**92**	893
Other regions	**3,271**	4,255
	18,323	10,320

5. Finance Costs

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	**2006**	2005
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest on:				
Loan from a fellow subsidiary	**2,288**	598	**3,923**	657
Loans from related parties	**766**	610	**1,352**	836
Bank borrowings wholly repayable within five years	**232**	496	**664**	1,058
Finance leases	**93**	119	**207**	278
Loans from shareholders	**–**	–	**–**	420
Others	**4**	–	**5**	194
	3,383	1,823	**6,151**	3,443

6. Income Tax Expense

	Three months ended 30 June		Six months ended 30 June	
	2006	2005	**2006**	2005
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The income tax expense comprises:				
Current tax	**–**	–	**–**	–
Deferred tax				
– current period	**–**	360	**–**	360
	–	360	**–**	360

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

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

7. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

8. Loss per share

The calculation of the basic loss per share for the three months and the six months ended 30 June 2006 is based on the loss attributable to the ordinary equity holders of the Company for the periods of approximately HK$8,604,000 and HK$18,843,000 (2005: HK$14,038,000 and HK$21,075,000), respectively, and the 800,820,000 shares (2005: 800,820,000 shares) in issue during the periods.

Diluted loss per share was not presented for the three months and six months ended 30 June 2006 because there was no potential ordinary shares in existence for the periods. No diluted loss per share has been calculated for the three months and six months ended 30 June 2005 as the exercise of the share options before their cancellations would result in a decrease in the loss per share.

9. Property, plant and equipment

	Carrying values (Unaudited) *HK$'000*
As at 1 January 2006	6,301
Exchange realignment	40
Additions	
Disposals	1,852
As at 30 June 2006	(2,699)
	5,494

10. Production work in progress

	Notes	**30 June 2006 (Unaudited)** ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Movie, net of allowance of approximately HK$94,712,000 (31 December 2005: HK$94,712,000)	*(i)*	**–**	–
Television series, net of allowance of approximately HK$14,615,000 (31 December 2005: HK$14,615,000)	*(ii)*	**–**	–
Amounts due from contract customers	*(iii)*	**1,344**	951
		1,344	951

Notes:

(i) The amount represents production costs incurred for the film titled "Thru the Moebius Strip" (the "Movie"), a movie project produced by the Group. Having regard to the projected sales estimated by the Group's sales agents and the uncertainty in finalising distribution/licence agreements among the potential markets on a timely basis, the Directors considered recoverability for the production costs already incurred is uncertain and a full allowance of approximately HK$94,712,000 has been made.

(ii) The amount represents production costs incurred for the television series titled "Panshel's World" (the "TV Series"). As at 30 June 2006, there was a litigation in relation to the co-production of the TV Series, details of which are set out in note 15, the Directors considered recoverability in these circumstance for the production costs already incurred is uncertain and a full allowance of approximately HK$14,615,000 has been made.

(iii) The following is details of contracts from CG creation and production in progress at the balance sheet date:

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Contract costs incurred plus recognised profits less recognised losses	**5,390**	951
Less: progress billings	**(4,046)**	–
Amounts due from contract customers	**1,344**	951

11. Trade receivables

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

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

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Within three months	**664**	2,527
Three to six months	**585**	786
Over six months	**–**	351
	1,249	3,664

12. Trade payables

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

	30 June 2006 (Unaudited) ***HK$'000***	31 December 2005 (Audited) *HK$'000*
Within three months	**721**	1,049
Three to six months	**165**	16
	886	1,065

13. Bank borrowings

During the six months ended 30 June 2006, the Group obtained new bank loans of approximately HK$12,618,000 and repaid bank loans of approximately HK$26,678,000 in accordance with the repayment terms. All bank loans bear interest at prevailing market rates and are repayable within twelve months from the balance sheet date.

14. Share capital

	Number of shares	**Share Capital**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005, 30 June 2005, 31 December 2005, 1 January 2006 and 30 June 2006	1,200,000,000	12,000
Issued and fully paid:		
At 1 January 2005, 30 June 2005, 31 December 2005, 1 January 2006 and 30 June 2006	800,820,000	8,008

15. 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 Production and Partners Multimedia, SAS ("P&PM"), in which the Group has a 25% equity interest, in relation to an animated television series.

Since November 2004, P&PM and WAMC issued a summons for summary judgment and then modified their claims against GDC Entertainment in the Court of Commerce of Angouleme (France) for the breach of the Co-production Agreement.

In relation to claims of WAMC and P&PM, the Group's French legal adviser holds his opinion that (i) in any event, the summary judgments to be rendered shall be very difficult or at least costly to P&PM and WAMC to enforce and (ii) the enforcement of the claims should only be limited to the assets of GDC Entertainment. Accordingly, the Directors consider that the claims made by P&PM and WAMC have no material financial impact to the Group and no provision for this litigation is considered necessary.

On the other hand, 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. In the arbitration, issues will be raised by GDC Entertainment primarily as to whether P&PM and/or WAMC was in repudiatory breach of the Co-production Agreement which gave rise to GDC Entertainment's entitlement to terminate the same and claim damages from P&PM and WAMC. Pleadings have not yet served in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether she has jurisdiction to hear the dispute which GDC Entertainment will refer to her in the arbitration. The hearing of the application was held on 20 January 2006. The arbitrator issued her decision on 23 March 2006 and concluded that she has jurisdiction to determine the disputes referred to her in GDC Entertainment's Notice of Arbitration. The arbitrator has further awarded costs in relation to the application in favour of GDC Entertainment. Since then, none of the parties have taken any steps to further advance the arbitration.

Save for the above proceeding, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries as the date of this announcement.

16. **Post balance sheet events**

On 6 July 2006, the Company announced that the Group agreed to transfer 16,000,000 shares in the issued share capital of GDC Technology Limited ("GDC Technology"), a wholly owned subsidiary of the Company, to the management of GDC Technology for an aggregate cash consideration of HK$1,600,000. Upon completion of the transfer, GDC Technology would be held as to 85% by the Group and as to 15% by the management.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue of the Group for the three months and the six months ended 30 June 2006 were approximately HK$9,682,000 and HK$18,323,000 which, when compared with the revenue of approximately HK$4,570,000 and HK$10,320,000 for the three months and the six months ended 30 June 2005, represented an increase of approximately 112% and 78% respectively.

During the six months ended 30 June 2006, the Group's revenue from CG creation and production increased for approximately HK$8,474,000 or approximately 775%, comparing with the corresponding period in the year 2005, as a result of that the Group's strategy of entering into the business of contractor of CG creation and production has been successful. Revenue from digital cinema equipment decreased as orders from customers were mainly delivered after the period end and therefore revenue related to these orders are booked in the period after 30 June 2006. Training fee income increased by approximately 46% mainly due to the increase in both number of course provided and average number of student attending each course. As the increase in revenue of CG creation and production and training fee has outweighed the decrease in revenue of digital cinema equipment, revenue increased in aggregate.

The Group made a gross profit of approximately HK$6,950,000 for the six months ended 30 June 2006, representing a gross profit margin of approximately 38%. Comparing with the gross loss resulted in the corresponding period in the year 2005, there was a significant improvement in terms of both monetary value and percentage to revenue. The improvement was mainly the result of the success of the Group's strategy of entering into the business of contractor of CG creation and production.

Rental expense written back during the six months ended 30 June 2005 was rental of premises occupied by the Group paid by the Shanghai Government as a form of support to the Group which is engaged in a business encouraged by the government. No support in such form was received during the six months ended 30 June 2006.

Distribution costs for the six months ended 30 June 2006 amounted to approximately HK$3,887,000 (2005: HK$1,618,000), representing an increase of approximately 140%. The increase in the distribution costs was mainly due to costs were incurred during the period under review for the promotion of the movie "Thru the Moebius Strip" which has been released in the PRC in August 2006.

Administrative expenses for the six months ended 30 June 2006 amounted to approximately HK$16,049,000 (2005: HK$17,690,000), representing a decrease of approximately 9%. The decrease in the administrative expenses was attributable to the saving of the expenses related to restructuring in the corresponding period in the year 2005.

Finance costs for the six months ended 30 June 2006 amounted to approximately HK$6,151,000, which represented mainly the interest costs for the two bank loans denominated in Renminbi, finance costs for computer equipment leasing and interest costs for loan from a fellow subsidiary, SCG Finance Corporation Limited ("SCG Finance") (2005: HK$3,443,000), representing an increase of approximately 79%. The increase in finance costs was mainly due to that outstanding balance of the loan from SCG Finance and other borrowings had been increasing to finance the Group's operations and the Group's development.

Overall, the Group incurred loss of approximately HK$18,843,000 for the six months ended 30 June 2006. Adjusted for the non-recurring income of rental expense written back amounted to approximately HK$3,394,000, adjusted loss for the corresponding period in the year 2005 amounted to approximately HK$24,469,000. Loss for the six months ended 30 June 2006 represented an improvement of approximately 23%, compared with the adjusted loss incurred in the corresponding period in the year 2005.

BUSINESS REVIEW

The Group's strategy of entering into the business of contractor of CG creation and production has been proved to be suitable for the Group. The Group has successfully turned gross loss in the corresponding period in the year 2005 to gross profit for the six months ended 30 June 2006. Revenue from CG training was also increasing. Even though the revenue from the digital content distribution and exhibition business which mainly comprised sales of digital cinema products decreased mainly due to the delivery of orders would be carried out after 30 June 2005, the Group's revenue and operating result in aggregate significantly improved.

CG creation and production

The Group's film, "Thru the Moebius Strip" (the "Movie"), has been released in the PRC in August 2006. Promotion materials such as trailer have been distributing through various channel. As soft promotion, two books based on the Movie have been published and available for sale in bookstores all over the PRC. A documentary program about the Movie, "Making of Moebius Film", has been shown on major television stations in the PRC including China Central Television. In addition to theatrical release, licensing arrangement for DVD and television distribution in the PRC have been under discussion.

The Group continued to develop its CG creation and production business into the one providing sustainable and relatively stable income and cash flow, by entering into the business of contractor of CG creation and production. Since signing the first contractor agreement in the fourth quarter of the year 2005, the Group has delivered episodes of products for DVD package, television series and high definition television series, under contracting or co-production agreements. Continuously, the Group received reorders from clients admitted the Group's products and orders from new clients. The development in this business was the main element driving the significant improvement in the Group's revenue, gross profit and operating results.

The Group's capability of CG creation and production not only recognised by its clients but also the industry in general. During the six months ended 30 June 2006, the Group's short film "Peach Blossom Garden" won the Golden Awards of "Digital Conference 6+2", a well-known award of digital content in Asia created by TBS of Japan. It is the first time ever a Chinese studio had won this prestigious reward.

Digital content distribution and exhibition

The Group continued to be engaged in the business of distribution and exhibition of digital content through its subsidiary, GDC Technology Limited ("GDC Technology"). Although revenue from digital content distribution and exhibition decreased during the six months ended 30 June 2006, due to that delivery of orders were made and therefore related revenues were recorded after 30 June 2006, GDC Technology's continued to develop its digital content distribution and exhibition business especially in respect of developing products fully complied with the specifications issued by Digital Cinema Initiative, LLC. ("DCI") which is adopted as an industrial specifications (the "DCI Specifications").

During the six months ended 30 June 2006 GDC Technology has been continuously receiving orders for example for SA1000 DSR™ Digital Film Server. Such products are installed in some of the most prestige cinemas in the region or country the cinemas located. GDC Technology has been developing and commercialising a model controlling servers centrally from a site remote from the ones the servers installed by GDC Technology's DSR™ Network Operations Center ("NOC"). By using the DSR™ NOC, contents, subtitle files and security keys can be quickly delivered to the cinemas controlled by NOC via network instantly. NOC is also capable in monitoring the status of the digital cinema equipment at each site it controlled such that pre-emptive warnings can be issued if the digital cinema equipment needs servicing. With the NOC, diagnostics and upgrades of equipment can now be performed remotely.

CG training

The Group's CG training business continued to maintain high growth. While CG training business becoming more mature and more courses have been opened in the regions of Shanghai and Shenzhen, the Group has been developing CG training business by franchising arrangement. The number of the students trained and the revenue from the training business kept increasing. It resulted in increasing revenue and cash flow contributed by the CG training business.

OUTLOOK

CG creation and production

Orders for contracting and for co-production are continued to be received from existing and new clients. In addition to international market, the Group is exploring the opportunities in the PRC. A prestige developer of theme park in the PRC has selected the Group to provide contents for its newly built theme park. The contract for one of the projects is expected to be signed shortly. With the successful execution of the expected contract, the Group will open a brand new market for customised special film in the PRC.

While potential from market side has been proved, the Group is exploring its potential in production side especially in respect of control on delivery schedule and cost. The Group believes, with the delivery of more projects on time, the Group has built up its credibility and will extend its list of prestige clients in the near future.

The Group is exploring the possibility of helping the Group's co-production projects in entering the PRC market. The Group has also started to explore business opportunities in licensing the rights of the Group's intelligent property in the PRC.

Digital content distribution and exhibitions

It is observed a significant increase in digital cinema deployment for the six months ended 30 June 2006 and that several projects of roll-out of digital cinema theatres have successfully raised funds. The full scale roll-out of digital cinema around the world is nearly realised in the foreseeable future. Such digitalisation of cinema will bring huge business opportunity to GDC Technology.

GDC Technology expects a significant increase in revenues when GDC Technology's server completely complying with the DCI Specifications is fully developed. GDC Technology is also developing the upgrade kit for GDC Technology's servers already installed to enable them to fully comply with the DCI Specifications. While GDC Technology has demonstrated the upgrade kit at the ShoWest convention, the most renowned business convention in the industry, in March 2006, GDC Technology is planning to conduct a road show to demonstrate its newly developed server complying with the DCI Specification in the second half of the year 2006. Both the server and upgrade kit complying with the DCI Specification are planned to be launched by the end of the year 2006.

To enhance its cooperation with major participants in the market including the major studios in Hollywood, GDC Technology is improving its technology against privacy. During the six months ended 30 June 2006, GDC Technology has signed a licensing agreement with an expert in the industry to license its forensic watermarking technology which is to be used in GDC Technology's next generation of servers. GDC Technology will maintain its records of protecting intellectual property and hence distinguish itself from new comers and potential competitors to the market.

While applying NOC in controlling digital cinema servers, GDC Technology has developed networked digital signage solutions applying NOC during the six months ended 30 June 2006. As such, GDC Technology is in a position to offer its complete suite of content delivery and playback solutions with DSR™ NOC software for customers who run digital cinema, on-screen advertisement and out-of-home advertisement businesses. GDC Technology has also started marketing the networked digital signage solutions with DSR™ NOC to customers beyond cinema operators. Digital signage offers marketers and advertisers a unique and innovative tool to bring classic advertising to life. Networks of digital signage show animated messages, precisely targeted at the audience, be it movie-goers in a cinema multiplex, shoppers in a mall, or commuters going home. GDC Technology has generated some revenues from networked digital signage solutions during the six months ended 30 June 2006 and expects to continue generating larger revenues from these networked digital signage products as it is envisaged that the rate of conversion of public area display systems used for out-of-home advertisement to digital systems to accelerate in the year 2006.

CG training

As the CG business develops, the market demand for well trained CG artists continues to grow. Although the number of companies offering CG training is increasing, and the CG training market becomes more competitive, the Group being a pioneer in CG training business will continue to maintain its leading position. During the six months ended 30 June 2006, the Group had set up authorised training center in Beijing. The Group plans to further expand training business to major cities in China, and to offer more training courses. With the expansion on geographic coverage of the training business and the enhancement of training courses offered, the Directors are confident to achieve and maintain the high growth on revenue from CG training.

Liquidity and financial resources

The Group had bank balances and cash of approximately HK$5.1 million as at 30 June 2006 (31 December 2005: HK$3.7 million) and no pledged bank deposits as at 30 June 2006 (31 December 2005: HK$16.5 million) which were mainly denominated in Hong Kong dollars and Renminbi. The decrease was mainly the result of that the Group had reserved approximately HK$14.4 million at 31 December 2005 to restructure/renew bank borrowings and paid the reserve after 31 December 2005.

The Group's borrowings amounted to approximately HK$114.0 million as at 30 June 2006 which were repayable within twelve months after 30 June 2006. There was no gearing ratio (calculated as bank and other borrowings less bank balances and cash and pledged bank deposits divided by shareholders' fund) presented as the Group recorded capital deficiency as at 30 June 2006.

Capital structure

As at 30 June 2006, the Group recorded capital deficiency of approximately HK$147.2 million (31 December 2005: HK$128.2 million) which was mainly financed by internal resources, bank and other borrowings, and loans from a fellow subsidiaries and related parties. The increase in capital deficiency was mainly arisen from the loss of approximately HK$18.8 million incurred during the period under review.

Material acquisition, disposals and significant investment

The Group had no material acquisitions, disposals and significant investment during the six months ended 30 June 2006.

Charge on assets

The Group had no charge on assets as at 30 June 2006.

Foreign exchange exposure

Currently, the Group mainly earns revenue and incurs costs in Renminbi, Hong Kong dollars and USA dollars. Considering that exchange rates among the currencies are relatively stable, the Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group has not hedged against any foreign currency fluctuations.

Contingent liabilities

Save as disclosed in Note 15 to the condensed financial statements about litigation proceeding, the Group had no contingent liabilities as at 30 June 2006.

Employees

As at 30 June 2006, the Group employed 348 (31 December 2005: 330) full time employees. The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group.

Directors' and chief executive's interests

As at 30 June 2006, so far as is known to the Directors or the Chief Executive of the Company, the interests and short positions of the Directors, the Chief Executive and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors and/or the Chief Executive of the Company as referred to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in Shares

According to the register maintained by the Company, Mr. Leung Shun Sang, Tony was personally interested in 8,278,000 shares and 679 share options of Shougang Concord Grand (Group) Limited ("Shougang Grand"), the holding company of the Company.

Save as disclosed above and, as at 30 June 2006, none of the Directors and the Chief Executive of the Company nor their associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' rights to acquire shares or debentures

There was no share options granted and outstanding during the period under review. At no time during the period under review, the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests of substantial shareholders

As at 30 June 2006, so far as is known to the Directors, the following, not being a Director or Chief Executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Percentage of interest as to the issued share capital of the Company	*Note(s)*
Shougang Holding (Hong Kong) Limited ("**Shougang Holding**")	Interests in controlled corporation	658,466,023	82.22%	*1*
Shougang Concord Grand (Group) Limited ("**Shougang Grand**")	Interests in controlled corporation	658,466,023	82.22%	*1*
Upper Nice Assets Ltd. ("**Upper Nice**")	Beneficial owner	658,466,023	82.22%	*1*
Mr. Li Baoku	Beneficial owner	58,000,000	7.24%	*2*
Sotas Limited ("**Sotas**")	Beneficial owner	55,544,102	6.94%	*3*
Morningside CyberVentures Holdings Limited ("**Morningside**")	Other	55,544,102	6.94%	*3*
Biswick Holdings Limited ("**Biswick**")	Other	55,544,102	6.94%	*3*
Verrall Limited ("**Verrall**")	Other	55,544,102	6.94%	*3*
Verrall Enterprises Holdings Limited	Other	55,544,102	6.94%	*3*
Madam Chan Tan Ching Fen	Other	55,544,102	6.94%	*3*

Notes:

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

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

(2) Mr. Li Baoku beneficially owns 58,000,000 shares of the Company. In the event that he exercises the Put Option, he will be entitled to sell up to all of the Option Shares beneficially owned by Mr. Li Baoku at the exercise price of HK$0.22 per share and Upper Nice is obliged to purchase the 58,000,000 Option Shares of the Company in respect of which the Put Option is exercised at such exercise price.

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

Short positions in the Shares

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Percentage of interest as to the issued share capital of the Company	Note
Mr. Li Baoku	Beneficial owner	58,000,000	7.24%	*1*

Note:

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

Save as disclosed above, as at 30 June 2006, the Directors and chief executive of the Company were not aware of any person who has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Share options

During the six months ended 30 June 2006, no share option has been granted to any person as required to be disclosed under the GEM Listing Rules.

Purchase, sale or redemption of listed securities of the Company

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' interests in competing business

As at 30 June 2006, the interests of the Directors in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

Name of Director	Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which were considered to compete or likely to compete with the businesses of the Group
Cao Zhong	Shougang Grand *(Note 1)*	Property investment and management financial services and cultural recreation content provision *(Note 2)*
Cheng Zheng	Shougang Grand *(Note 1)*	Property investment and management financial services and cultural recreation content provision *(Note 2)*
Leung Shun Sang, Tony	Shougang Grand *(Note 1)*	Property investment and management financial services and cultural recreation content provision *(Note 2)*
Hui Hung, Stephen	Shougang Grand *(Note 1 & Note 3)*	Property investment and management financial services and cultural recreation content provision *(Note 2)*

Notes:

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

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

(3) Mr. Hui Hung, Stephen resigned as a director of Shougang Grand on 27 February 2006.

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

Corporate governance

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2006.

Securities transactions by directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all Directors have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions adopted by the Company during the six months ended 30 June 2006.

Audit committee

The Company has established an audit committee with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee comprises of Mr. Kwong Che Keung, Gordon, Mr. Bu Fan Xiao and Mr. Hui Hung, Stephen, all of whom are independent non-executive Directors.

The audit committee has reviewed the Group's interim results for the six months ended 30 June 2006 and is of the opinion that such results comply with the applicable accounting standards, and the GEM Listing Rules and legal requirements and that adequate disclosures have been made.

By Order of the Board
Chen Zheng
Executive Director

Hong Kong, 11 August 2006

As at the date of this announcement, the Executive Directors of the Company are Mr. Cao Zhong, Mr. Chen Zheng, Mr. Jin Guo Ping and Dr. Xu Qing, Catherine, the Non-executive Directors are Mr. Leung Shun Sang, Tony and Dr. Deng Wei, David, the Independent non-executive Directors are Mr. Kwong Che Keung, Gordon, Mr. Bu Fan Xiao and Mr. Hui Hung, Stephen, the Alternate Director is Zhang Dong Sheng (Alternate to Dr. Deng Wei, David).

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 day of its posting and at the Company's website www.gdc-world.com.