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環球數碼創意控股有限公司*
GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

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 trade 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 (the “GEM Listing Rules”) 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”) 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 2005, together with the comparative figures for the year ended 31 December 2004, as follows:

Consolidated Income Statement

For the year ended 31 December 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i> <i>(restated)</i>
Revenue	5&6	32,195	47,987
Cost of sales		(34,848)	(35,278)
Allowance for production work in progress	13	(24,712)	(84,615)
Gross loss		(27,365)	(71,906)
Other income		645	101
Distribution costs		(2,031)	(4,246)
Administrative expenses		(37,429)	(34,738)
Impairment losses recognised in respect of property, plant and equipment	12	(2,350)	(14,868)
Finance costs	8	(7,675)	(5,545)
Loss before taxation	7	(76,205)	(131,202)
Income tax expense	9	(151)	(25)
Loss for the year		(76,356)	(131,227)
Loss per share	11		
Basic		(9.53 HK cents)	(16.54 HK cents)
Diluted		N/A	N/A

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	12	6,301	14,000
Available-for-sale investment		—	—
Investment securities		—	—
Deferred tax assets		—	151
		<u>6,301</u>	<u>14,151</u>
Current assets			
Inventories, at cost		1,157	5,523
Production work in progress	13	951	21,301
Trade receivables	14	3,664	18,011
Prepayments, deposits and other receivables		2,124	4,435
Pledged bank deposits		16,455	2,004
Bank balances and cash		3,667	3,635
		<u>28,018</u>	<u>54,909</u>
Current liabilities			
Training fees received in advance		2,725	2,168
Trade payables	15	1,065	11,018
Other payables and accruals		23,615	20,798
Amounts due to fellow subsidiaries		18,783	—
Amounts due to directors		2,116	3,037
Amounts due to shareholders		339	2,147
Amounts due to related parties		5,125	1,180
Tax liabilities		—	25
Loan from a fellow subsidiary		43,983	—
Loan from a shareholder — due within one year		—	3,157
Loans from related parties		22,457	1,000
Obligations under finance leases — due within one year		3,468	6,796
Bank borrowings — due within one year		27,210	31,907
Other loans		8,243	18,940
		<u>159,129</u>	<u>102,173</u>
Net current liabilities		<u>(131,111)</u>	<u>(47,264)</u>
Total assets less current liabilities		<u>(124,810)</u>	<u>(33,113)</u>
Non-current liabilities			
Obligations under finance leases — due after one year		1,907	2,211
Loan from a shareholder — due after one year		—	18,237
Amount due to a related party — due after one year		1,495	—
		<u>3,402</u>	<u>20,448</u>
		<u>(128,212)</u>	<u>(53,561)</u>
Capital and reserves			
Share capital	16	8,008	8,008
Share premium and reserves	17	(136,220)	(61,569)
		<u>(128,212)</u>	<u>(53,561)</u>

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group incurred significant losses of approximately HK\$76,356,000 for the year ended 31 December 2005 and the Group had net current liabilities of approximately HK\$131,111,000 and net liabilities of approximately HK\$128,212,000 as at 31 December 2005. Notwithstanding, the Directors are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(1) Bank borrowings' restructuring

Up to the date of approval of these financial statements, the Group signed an agreement with Bank of China, Shenzhen branch, to extend the maturity date of a bank loan of RMB13,000,000, or equivalent to approximately HK\$12,487,000, from January 2006 to January 2007.

(2) 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 holding company of the Group incorporated in Bermuda as an exempted company with limited liability and with its securities listed on the Stock Exchange, at 31 December 2005 was HK\$50,000,000, in which approximately HK\$43,983,000 is utilised as at 31 December 2005. Subsequent to the balance sheet date, the amount of the facilities is further increased to HK\$100,000,000 and is available up to 31 December 2006.

(3) Loan from SCG Finance

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.

(4) Financial support

SCG and a 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 the date of this announcement.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new and revised Standards and Interpretations”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group’s accounting policies in the following areas that have an effect on the amounts reported for the current or prior years:

- HKAS 32 Financial Instruments: Disclosure and Presentation
- HKAS 39 Financial Instruments: Recognition and Measurement
- HKFRS 2 Share-based Payment

(a) ***HKAS 32 Financial Instruments: Disclosure and Presentation and
HKAS 39 Financial Instruments: Recognition and Measurement***

In the current year, the Group has applied HKAS 32 Financial Instruments: *Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. The application of HKAS 32 has had no material impact on how financial instruments are presented for current and prior accounting periods. HKAS 39, which is effective for periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 *Accounting for investments in securities*) in accordance with the requirements of HKAS 39. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the non-interest bearing amount due to a related party — due after one year was stated at amortised cost, giving rise to capital contribution reserve amounting to approximately HK\$445,000 for the year ended 31 December 2005.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result, “Investment securities” amounted to HK\$Nil (net of allowance of approximately HK\$117,000) has been classified as available-for-sale investment on 1 January 2005 (see Note 2A).

Derivative

Prior to 1 January 2005, the Company granted Sotas Limited, a related company, a share option which entitled Sotas Limited to acquire 8,331,615 shares of the Company within 36 months from 4 August 2003 at an aggregate exercise price of US\$600,000. This option meets the definition of a derivative which should be stated at fair value. According to the transitional provisions of HKAS 39, the difference between the previous carrying amount and the fair value should be adjusted to the retained earnings at 1 January 2005. As the exercise price was above the market price of the underlying share as at 1 January 2005, there is no financial impact on the results of the financial statements. During the year, this share option has been cancelled.

(b) HKFRS 2 Share-based Payment

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 2A).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 HK\$'000	2004 HK\$'000
Increase in administrative expenses on recognition of share-based payment as expenses and increase in loss for the year	<u>1,338</u>	<u>891</u>

The cumulative effects of the application of the new and revised Standards and Interpretations on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK\$'000	Retrospective adjustment HK\$'000 HKFRS 2	As at 31 December 2004 (restated) HK\$'000	Prospective adjustment HK\$'000 HKAS 39	As at 1 January 2005 (restated) HK\$'000
Balance sheet items					
Property, plant and equipment	14,000	—	14,000	—	14,000
Available-for-sale investment (Note a)	—	—	—	—	—
Investment securities (Note a)	—	—	—	—	—
Other payables and accruals	(122,621)	—	(122,621)	—	(122,621)
Other net assets	55,060	—	55,060	—	55,060
Total effects on assets and liabilities	<u>(53,561)</u>	<u>—</u>	<u>(53,561)</u>	<u>—</u>	<u>(53,561)</u>
Share capital	8,008	—	8,008	—	8,008
Accumulated losses	(194,992)	(891)	(195,883)	—	(195,883)
Other reserves	133,423	891	134,314	—	134,314
Total effects on equity	<u>(53,561)</u>	<u>—</u>	<u>(53,561)</u>	<u>—</u>	<u>(53,561)</u>

Note:

- (a) On 1 January 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result, “Investment securities” amounting to HK\$Nil (net of allowance of approximately HK\$117,000) has been classified as available-for-sale investment on 1 January 2005.

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 of the Company anticipate that the application of these new and revised Standards and Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosure ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	Net Investment in a Foreign operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments: Disclosures ¹

HK(IFRIC) — INT 4	Determining whether an Arrangement Contains a Lease ²
HK(IFRIC) — INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC) — INT 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment ³
HK(IFRIC) — INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

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

Jointly controlled operations

Where a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations together with the expenses that it incurs are included in the income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

Revenue recognition

Revenue, representing fair value of amount received and receivable from sale of goods in the ordinary course of business, is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of goods are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Training fee income is amortised over the period of the training course. Unearned training fee income received is recorded as training fees received in advance.

Computer Graphic (“CG”) creation and production income is recognised when the film production service is provided.

Technical service income is recognised when the service is provided.

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

Box office receipts are recognised when the digital motion pictures are exhibited.

Franchise fees from digital cinemas for use of equipment are recognised based on certain percentage of revenue generated from the leasing of equipment in accordance with the franchise agreement.

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method.

Construction in progress represents assets in the course of construction for production, or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Cost includes all construction expenditure and other direct costs attributable to such projects. Costs on completed construction work are transferred to other appropriate category of property, plant and equipment and depreciation of these assets are charged, on the same basis as other assets when the construction of the related assets is completed.

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Film costs and films under production

Films under production is stated at lower of cost and net realisable value. Cost comprises direct production costs, consultancy fees, payment for intellectual property rights and appropriate proportion of production overheads which are allocated on the basis of floor areas occupied by the production unit, proportion of time of production facilities utilised or other systematic allocation methods where the directors consider appropriate.

Production costs are transferred to film costs upon completion. Film costs are stated at the lower of cost and net realisable value.

Inventories

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Research and development expenditure

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

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

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

Financial liabilities and equity

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

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

Other financial liabilities

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

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

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

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

Impairment losses

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

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

Borrowing costs

Borrowing costs directly attributable to the production of films that necessary takes a substantial period of time to get ready for sale are capitalised as part of the production work in progress. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when they fall due.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgment that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Going concern

The Group incurred significant losses of approximately HK\$76,356,000 for the year ended 31 December 2005 and the Group had net current liabilities and net liabilities of approximately HK\$131,111,000 and HK\$128,212,000 respectively. The Directors are of the opinion that the preparation of these financial statements are based on going concern and the basis of going concern has disclosed in note 1. Should there be any problem in the going concern of the Group, all the assets and liabilities have to be stated at net realisable values. In particular, the non-current assets (which represents the property, plant and equipment only) and the non-current liabilities have to be reclassified as current assets and current liabilities respectively. As at 31 December 2005, the directors have fully impaired those property, plant and equipment with recoverable problem and adequate allowances have been made for bad and doubtful debts and inventories. In the opinion of the Directors, the carrying amounts of all the assets and liabilities approximately their fair values.

Depreciation

The Group's net book values of property, plant and equipment as at 31 December 2005 was approximately HK\$6,301,000. The Group depreciates the computer equipment on a straight line basis over the estimated useful life of three years, and after taking into account of their estimated residual value, using the straight line method, at the rate $33\frac{1}{3}\%$ per annum, commencing from the date the computer equipment is placed into use. The estimated useful life and dates that the Group places the computer equipment into use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's computer equipment.

Allowances for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. Allowance for bad and doubtful debts of approximately HK\$521,000 was made for the year ended 31 December 2005 (2004: Nil).

Allowances for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. Allowance for inventories of approximately HK\$2,645,000 was made for the year ended 31 December 2005 (2004: Nil).

Allowance for production work in progress

The policy for allowance for production work in progress of the Group is based on the evaluation of the certainty in finalising the distribution/license agreements in the potential markets and on management's judgement. The management estimates the net realisable value for such production work in progress was approximately HK\$951,000 (2004: HK\$21,301,000) as at 31 December 2005. Allowance for production work in progress of approximately HK\$24,712,000 was made for the year ended 31 December 2005 (2004: HK\$84,615,000).

Provision for litigation

The management of the Group monitor any litigation against the Group closely. Provision for the litigation is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2005, there is no foreseeable financial impact to the Group and no provision for litigation has been made.

5. REVENUE

Revenue 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, technical service fee, distribution of digital motion pictures and franchise fee, computer graphics (“CG”) creation and production income and rental income from equipment leasing during the year.

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

	2005	2004
	<i>HK\$’000</i>	<i>HK\$’000</i>
Sales of goods	19,128	41,630
Training fee	7,212	5,064
CG creation and production income	4,906	52
Technical service income	867	—
Rental income from equipment leasing	82	1,072
Box office receipts from distribution of digital motion pictures	—	93
Franchise fee from digital cinema for use of equipment	—	76
	<u>32,195</u>	<u>47,987</u>

6. 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 2005

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

For the year ended 31 December 2005

	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	CG creation and production <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital addition	411	222	2,002	—	2,635
Depreciation	1,947	437	5,333	143	7,860
Impairment losses recognised in respect of property, plant and equipment	2,350	—	—	—	2,350
Allowance for production work in progress and inventories	2,645	—	24,712	—	27,357
Allowance for bad and doubtful debts	521	—	—	—	521
Share-based payment expenses	—	—	—	1,338	1,338
Amortisation of loan guarantee fee	<u>—</u>	<u>—</u>	<u>—</u>	<u>468</u>	<u>468</u>

At 31 December 2005

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

For the year ended 31 December 2004 (as restated)

	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	CG creation and production <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
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				(12,818)
Finance costs				(5,545)
Loss before taxation				(131,202)
Income tax expense				(25)
Loss for the year				(131,227)

For the year ended 31 December 2004 (as restated)

	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	CG creation and production <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital addition	1,207	182	3,657	6	5,052
Depreciation	2,176	2,108	7,197	203	11,684
Impairment losses recognised in respect of property, plant and equipment	9,912	4,956	—	—	14,868
Impairment losses recognised in respect of available-for-sale investment	—	—	—	117	117
Allowance for production work in progress	—	—	84,615	—	84,615
Share-based payment expenses	—	—	—	891	891
Amortisation of loan guarantee fee	—	—	—	863	863
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 31 December 2004

	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	CG creation and production <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET				
Assets				
Segment assets	28,902	1,944	31,410	62,256
Unallocated corporate assets				<u>6,804</u>
Consolidated total assets				<u>69,060</u>
Liabilities				
Segment liabilities	13,415	8,040	8,321	29,776
Unallocated corporate liabilities				<u>92,845</u>
Consolidated total liabilities				<u>122,621</u>

(b) Geographical segments

The Group's three business segments operate in four main geographical areas, namely 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 the CG training facilities are located in the PRC. Customers of the Group's digital content distribution and exhibitions business are located in the PRC, India, Singapore and other regions.

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

	2005 HK\$'000	2004 HK\$'000
The PRC	13,769	29,747
India	2,123	1,905
Singapore	2,439	5,653
Other regions	13,864	10,682
	<u>32,195</u>	<u>47,987</u>

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

	Segment assets		Additions to property, plant and equipment	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
The PRC	21,950	54,987	2,224	3,838
Hong Kong	5,996	7,502	369	1,174
India	196	1,116	—	—
Singapore	1,717	861	42	—
Other regions	4,460	4,594	—	40
	<u>34,319</u>	<u>69,060</u>	<u>2,635</u>	<u>5,052</u>
Total				

7. LOSS BEFORE TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss before taxation was arrived at after charging:		
Staff costs, including Directors' emoluments:		
— Salaries, wages and other benefits	28,732	35,590
— Retirement benefit scheme contributions	483	1,683
Total staff costs	29,215	37,273
Less: amounts included in production work in progress	(14,083)	(17,638)
amounts included in research and development costs	(2,324)	(2,275)
	12,808	17,360
Allowance for bad and doubtful debts	521	—
Allowance for inventories	2,645	—
Auditors' remuneration	1,043	874
Depreciation	7,860	11,684
Less: amounts included in production work in progress	(4,259)	(6,377)
	3,601	5,307
Exchange loss, net	353	177
Cost of inventories recognised as an expense	32,203	35,278
Loss on disposal of property, plant and equipment	9	84
Impairment losses in respect of property, plant and equipment (included in administrative expenses)	2,350	14,868
Impairment losses recognised in respect of available-for-sale investment (formerly classified as investment securities, included in administrative expenses)	—	117
Minimum lease payments under operating leases for land and buildings	2,302	6,069
Less: amounts included in production work in progress	(1,759)	(1,392)
	543	4,677
Research and development costs	2,324	2,275
and after crediting:		
Interest income	66	17

8. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	847	1,895
Finance leases	624	1,069
Loan from a fellow subsidiary	3,155	—
Loans from related parties	1,833	—
Loans from shareholders	352	1,563
Other loans	396	807
Others	468	863
	<u>7,675</u>	<u>6,197</u>
Less: amounts included in production work in progress	<u>—</u>	<u>(652)</u>
	<u><u>7,675</u></u>	<u><u>5,545</u></u>

9. INCOME TAX EXPENSE

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The income tax expense comprises:		
Current tax		
— PRC Enterprise Income Tax (“EIT”)	—	25
Deferred tax	<u>151</u>	<u>—</u>
	<u><u>151</u></u>	<u><u>25</u></u>

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

	2005 HK\$'000	2004 <i>HK\$'000</i> <i>(restated)</i>
Loss before taxation	<u>(76,205)</u>	<u>(131,202)</u>
Tax calculated at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	(13,336)	(22,960)
Tax effect of income that are not taxable for tax purpose	(67)	(1)
Tax effect of expenses that are not deductible for tax purpose	14,576	19,728
Tax effect of tax losses not recognised	177	5
Tax effect of temporary differences arising from unrealised profits resulting from intra-group transactions not recognised	(3,484)	1,171
Effect of tax exemptions granted to subsidiaries in the PRC	320	2,114
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>1,965</u>	<u>(32)</u>
Income tax expense for the year	<u>151</u>	<u>25</u>

10. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to the ordinary equity holders of the Company of approximately HK\$76,356,000 (2004: HK\$131,227,000 as restated) and the weighted average of 800,820,000 shares (2004: 793,197,377 shares) in issue during the year.

No diluted loss per share has been calculated for the year ended 31 December 2005 and 2004 as the exercise of the share options could result in a decrease in the loss per share.

The following table summarises the impact on basic loss per share as a result of :

	Impact on basic Loss per share	
	2005	2004
	<i>cents</i>	<i>cents</i>
Reported figures before adjustments	(9.36)	(16.43)
Adjustments arising from changes in accounting policies (See Note 2A)	<u>(0.17)</u>	<u>(0.11)</u>
Restated	<u>(9.53)</u>	<u>(16.54)</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Equipment, furniture and fixtures <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Digital film encoders and servers <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
Disposals	—	—	(4)	—	(570)	—	(574)
Transfer	4,684	—	—	—	—	(4,684)	-
At 31 December 2004 and 1 January 2005	21,609	1,265	35,368	1,914	452	—	60,608
Exchange realignment	416	18	244	—	2	—	680
Additions	—	162	2,473	—	—	—	2,635
Disposals	—	(14)	(397)	—	—	—	(411)
At 31 December 2005	22,025	1,431	37,688	1,914	454	—	63,512
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
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
Eliminated on disposals	—	—	(4)	—	(86)	—	(90)
Impairment losses	14,868	—	—	—	—	—	14,868
At 31 December 2004 and 1 January 2005	21,240	633	24,059	415	261	—	46,608
Exchange realignment	399	11	212	—	—	—	622
Provided for the year	104	269	7,208	191	88	—	7,860
Eliminated on disposals	—	(1)	(228)	—	—	—	(229)
Impairment losses	—	—	1,042	1,308	—	—	2,350
At 31 December 2005	21,743	912	32,293	1,914	349	—	57,211
NET BOOK VALUES							
At 31 December 2005	<u>282</u>	<u>519</u>	<u>5,395</u>	<u>—</u>	<u>105</u>	<u>—</u>	<u>6,301</u>
At 31 December 2004	<u>369</u>	<u>632</u>	<u>11,309</u>	<u>1,499</u>	<u>191</u>	<u>—</u>	<u>14,000</u>

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

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

Due to a disfurnishment notice from the PRC government to the landlord for which the premises were rented by the Group, the Directors considered the relevant leasehold improvements were fully impaired and impairment losses of approximately HK\$14,868,000 were identified and charged to the consolidated income statement for the year ended 31 December 2004.

During the year, the Directors conducted a review of the Group's computer equipment and digital film encoders and servers and determined that a number of these assets were impaired, due to physical damage and technical obsolescence. Accordingly, the carrying amount of computer equipment of one of the Group's subsidiaries amounting to HK\$1,042,000 and the carrying amount of the Group's digital film encoders and servers amounting to HK\$1,308,000 have been fully impaired.

At 31 December 2005, the cost, accumulated depreciation and impairment, depreciation charge and impairment losses recognised 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	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Note)</i>	<i>(Note)</i>		
Cost	—	583	957	957
Accumulated depreciation and impairment	—	(367)	(957)	(256)
	<u>—</u>	<u>216</u>	<u>—</u>	<u>701</u>
Depreciation charge for the year	—	233	96	96
Impairment losses recognised for the year	—	—	605	—

Note: The operating lease of computer equipment had been expired as at 31 December 2004.

At 31 December 2005, net book values of computer equipment and motor vehicles of the Group included amounts of approximately HK\$2,329,000 (2004: HK\$4,996,000) and HK\$21,000 (2004: HK\$86,000) respectively in respect of assets held under finance leases.

Computer equipment with net book values of approximately HK\$2,040,000 (2004: Nil) are held under finance lease arrangement with South China International Leasing Company Limited, a fellow subsidiary of the Company.

13. PRODUCTION WORK IN PROGRESS

		2005 HK\$'000	2004 HK\$'000
	Notes		
Movie, net of allowance of approximately HK\$94,712,000 (2004: 70,000,000)	(i)	—	20,340
Television series, net of allowance of approximately HK\$14,615,000 (2004: 14,615,000)	(ii)	—	—
Others		951	961
		<u>951</u>	<u>961</u>
		<u>951</u>	<u>21,301</u>

Notes:

- (i) The amount represents production costs incurred for the film titled “*Thru the Moebius Strip*” (the “Film”), a movie project produced by the Group. 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 additional allowance of approximately HK\$24,712,000 (2004: HK\$70,000,000) for the year.

Details of the movements are as follows:

	HK\$'000
At 1 January 2004	75,666
Additions	14,674
Less: allowance	(70,000)
At 31 December 2004 and 1 January 2005	20,340
Additions	4,372
Less: allowance	(24,712)
At 31 December 2005	—

- (ii) The amount represents production costs incurred for the television series titled “*Panshel’s World*” (the “TV Series”). Since the year 2004, there has been 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 is uncertain and a full allowance of approximately HK\$14,615,000 was made for the year ended 31 December 2004.

14. 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:

	2005 HK\$'000	2004 HK\$'000
Within three months	2,527	16,545
Three to six months	786	1,070
Over six months	351	396
	<u>3,664</u>	<u>18,011</u>

The fair value of the Group's trade receivable at 31 December 2005 approximates to the corresponding carrying amount.

15. TRADE PAYABLES

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

	2005 HK\$'000	2004 HK\$'000
Within three months	1,049	10,257
Three to six months	16	744
Over six months	—	17
	<u>1,065</u>	<u>11,018</u>

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

16. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2004 and 31 December 2004 and 2005	<u>1,200,000,000</u>	<u>12,000</u>
Issued and fully paid:		
At 1 January 2004	780,000,000	7,800
Issue of shares by placing	<u>20,820,000</u>	<u>208</u>
At 31 December 2004 and 31 December 2005	<u>800,820,000</u>	<u>8,008</u>

17. SHARE PREMIUM AND RESERVES

	Share premium account HK\$'000	Capital contribution reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Statutory reserve HK\$'000 (Note c)	Share options reserve HK\$'000 (Note d)	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2004	84,299	—	40,271	538	—	48	(64,514)	60,642
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	—	—	—	—	—	(14)	—	(14)
Loss for the year as restated	—	—	—	—	—	—	(131,227)	(131,227)
Total recognised income (expenses) for the year	—	—	—	—	—	(14)	(131,227)	(131,241)
Sub-total	84,299	—	40,271	538	—	34	(195,741)	(70,599)
Issue of shares by placing	8,536	—	—	—	—	—	—	8,536
Share issuance cost	(397)	—	—	—	—	—	—	(397)
Recognition of equity-settled share-based payment	—	—	—	—	891	—	—	891
Transfer to statutory reserve	—	—	—	142	—	—	(142)	—
At 31 December 2004 and at 1 January 2005 as restated	92,438	—	40,271	680	891	34	(195,883)	(61,569)
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	—	—	—	—	—	(78)	—	(78)
Loss for the year	—	—	—	—	—	—	(76,356)	(76,356)
Total recognised income (expenses) for the year	—	—	—	—	—	(78)	(76,356)	(76,434)
Sub-total	92,438	—	40,271	680	891	(44)	(272,239)	(138,003)
Deemed contribution from former shareholder	—	445	—	—	—	—	—	445
Recognition of equity-settled share-based payment	—	—	—	—	1,338	—	—	1,338
Cancellation of share option	—	—	—	—	(2,229)	—	2,229	—
At 31 December 2005	92,438	445	40,271	680	—	(44)	(270,010)	(136,220)

Notes:

- (a) Capital contribution reserve represents accumulated effect on imputed interest on amount due to a related party, a former shareholder.
- (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-owned foreign 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 capital thereafter any further appropriation is optional and is determinable by the Companies' boards of directors. The statutory reserve as at 31 December 2005 represents general reserve fund of IDMT Shenzhen of approximately HK\$680,000 (2004: HK\$680,000) which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.
- (d) Following the change of major shareholding in February 2005, the holding company, Upper Nice Assets Ltd. a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited, issued an offer document in respect of a voluntary conditional cash offer to cancel all the outstanding options of the Company. In accordance with HKFRS 2 *Share-based Payment*, as the outstanding options have been cancelled during the vesting period, it should be accounted for as an acceleration of vesting and recognise the remaining amount immediately. Upon the cancellation of options, the share option reserve of approximately HK\$2,229,000 (2004: Nil) was transferred to the accumulated losses.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Actual business progress

CG creation and production

- | | |
|--|---|
| 1. Complete <i>Thru the Moebius Strip</i> production and premiere. | 1. The production of <i>Thru the Moebius Strip</i> was completed in May 2004 and was officially launched in the Cannes Film Festival in the same month. |
| 2. Sign up a US distributor for <i>Thru the Moebius Strip</i> . | 2. GDC entered into a sales agency agreement (which was terminated in the second half of 2004) with Senator International Inc. in respect of the distribution of <i>Thru the Moebius Strip</i> in the US. GDC also received offers for distribution of <i>Thru the Moebius Strip</i> in the US. |
| 3. Pre-sell <i>Thru the Moebius Strip</i> to markets other than the US. | 3. GDC pre-sold <i>Thru the Moebius Strip</i> to 7 markets other than the US. GDC also received offers from distributors from the rest of the world. |
| 4. 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 <i>Thru the Moebius Strip</i> and Sandman console games in the US with Equinox. | 5. GDC commenced the development of <i>Thru the Moebius Strip</i> game in house with other partners including Gameone Online Entertainment Group Limited (“Gameone”). |
| 6. Publish the first issue of CG, games and digital cinema print and e-magazine. | 6. Instead of publishing the print version of CG, games and e-magazine, GDC started an online forum in relation to these topics. In addition, GDC published three textbooks relating CG in PRC. |

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

Actual business progress

- | | |
|--|--|
| 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. Issue first comic 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 (only limited to those which have not been fulfilled in full as stated in the annual report of the Company for the financial year ended 31 December 2004)

Actual business progress

CG creation and production

- | | |
|---|--|
| 1. Launch localized Korean and Japanese on-line games in Greater China market. | 1. Not yet launched. |
| 2. Complete development of <i>Thru the Moebius Strip</i> and Sandman console games for publisher. | 2. GDC commenced the development of <i>Thru the Moebius Strip</i> game in house with other partners including Gameone. |
| 3. Begin development of next prototypes. | 3. Have developed two sets of prototypes for TV series. |

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

Actual business progress

- | | |
|--|---|
| 4. Market DVDs for Thru the Moebius Strip. | 4. The deal is in discussion. |
| 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. Not yet commenced. |

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

Actual business progress

Digital content distribution and exhibitions

- | | |
|---|---|
| 1. Further supply digital cinema equipment to Adlabs. | 1. Mukta Adlabs Digital Exhibition Limited (“Adlabs”) did not meet the target of installing 400 servers for the year ended 31 December 2004. Adlabs has temporarily stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Mukta Adlabs for the order of new servers. |
|---|---|

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

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

Actual business progress

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

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

Actual business progress

CG creation and production

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

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

Actual business progress

Digital content distribution and exhibitions

- | | | |
|---|--|--|
| <p>1. Further supply digital cinema equipment to Adlabs.</p> | <p>1. Mukta Adlabs Digital Exhibition Limited (“Adlabs”) did not meet the target of installing 400 servers for the year ended 31 December 2004. Adlabs has temporary stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Adlabs for the order of new servers.</p> <p>On the other hand, GDC Technology expanded its market share in India by reprofiting 5 cinemas in Southern India with GDC Technology’s digital servers in 2004.</p> | |
| <p>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.</p> | <p>2. The launch of further Dcinemas under the franchise model is currently delayed.</p> | |
| <p>3. Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system).</p> | <p>3. GDC Technology continues some R&D programs that do not require substantial funding. Currently, GDC Technology does not carry out capital intensive R&D such as FPGA implementation of JPEG2000 codec and interactive digital cinema systems.</p> | |

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

Actual business progress

CG creation and production

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

Digital content distribution and exhibitions

- | | | | |
|----|--|----|---|
| 1. | Further supply digital cinema equipment to Adlabs. | 1. | Mukta Adlabs Digital Exhibition Limited (“Adlabs”) did not meet the target of installing 400 servers for the year ended 31 December 2004. Adlabs has temporary stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Adlabs for the order of new servers. However, GDC Technology also expanded its market share in India by retrofitting more than 10 cinemas in South India with GDC Technology’s digital servers. |
|----|--|----|---|

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

Actual business progress

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|---|--|
| <p>2. Sign up further digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong, to reach total of around 250 and 120 respectively.</p> | <p>2. The launch of further D-cinemas under the franchise model is currently delayed.</p> |
| <p>3. Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system).</p> | <p>3. GDC Technology continues some R&D programs that do not require substantial funding. Currently, GDC Technology does not carry out capital intensive R&D such as FPGA implementation of JPEG2000 codec and interactive digital cinema systems.</p> |

Provision of CG training courses

- | | |
|--|---|
| <p>1. Continue to run the 5th CG training course in Shenzhen, the PRC and the 2nd CG training course in Shanghai, the PRC.</p> | <p>1. 136 students of the 5th CG training course in Shenzhen graduated on 31 May. The 2nd and 3rd CG courses in Shanghai were also successfully finished.</p> |
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Business Objectives from 1 July 2005 to 31 December 2005 as stated in the Prospectus

Actual Business Progress

CG creation and production

- | | |
|---|--|
| <p>1. Complete “Thru Moebius Strip” production and premiere</p> | <p>Production of this CG feature film has completed in production. It is planned to be released in China in summer of 2006.</p> |
| <p>2. Recruited a new sales agent to distribute the film worldwide.</p> | <p>GDC recruited Fantastic Films to distribute the film after the termination of the sales agent agreement with Senator International.</p> |
| <p>3. GDC has entered into 2 co-production agreements with 2 US studios to produce 6 CG features film in the 5 years.</p> | <p>There has not been substantial progress with the production under these 2 agreements yet due to delay of fund raising by the producers in the US.</p> |

**Business Objectives from 1 July 2005
to 31 December 2005 as stated in the
Prospectus**

Actual Business Progress

- | | |
|--|--|
| <p>4. GDC is in negotiation with several major US production companies for co-production TV series and other “Work-for hire” only project.</p> | <p>GDC signed contract with two US animation producing company to do production for two TV series and one DVD package. One of the contracts has been fulfilled in 2005 and the other projects are still in production. The DVD package is due to be completed in production by mid 2006. Another co-production contract has also been secured for a TV series of 52 episodes. GDC will share the right in both domestic as well as international market.</p> |
| <p>5. GDC has entered a co-production agreement with Game One Online Entertainment Group Limited to co-produce online games.</p> | <p>There has not been any substantial progress with the co-production yet. However, there has been more production service work signed and done for game companies in Europe, USA and Japan. GDC is in discussion with a French game company for licensing and developing the property of “Moebius” film into an online game.</p> |
| <p>6. GDC are seeking opportunities for special effects productions in live action films.</p> | <p>The studio has been approached by a Chinese producer for doing special effects for a live action TV drama. Plans and budget have been provided to the producer. We expect to start the project in mid 2006 if fund is secured for this show.</p> |
| <p>7. GDC is doing production for commercials, and other special films.</p> | <p>The company did production for a few commercials in 2005 and will continue this business as well as expanded the market to customized special films, such as multi-screen films.</p> |
| <p>8. We are actively developing new characters for merchandising and licensing.</p> | <p>We have selected a range of merchandizing items for the market. When the promotion of the film release starts in April, we expect to have good reactions from licensing. Other characters have been designed and created for projects which are merchandizing oriented for China market.</p> |

**Business Objectives from 1 July 2005
to 31 December 2005 as stated in the
Prospectus**

Actual Business Progress

**Digital content
distribution and
exhibitions**

- | | |
|--|---|
| <p>1. Further supply digital cinema equipment to Adlabs.</p> | <p>During the year, Adlabs did not meet the target of installing 400 servers for the year ended 31 December 2005. Mukta Adlabs has temporary stopped the order of new servers until the upgrade of digital projectors from a single chip to 3-chip DLP projectors is complete. GDC Technology continues its discussion with Mukta Adlabs for the order of new servers but it is highly unlikely that will meet the target. However, GDC Technology expanded its market share in India by retrofitting a few cinemas in South India with GDC Technology's digital servers.</p> |
| <p>2. Sign up further digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong, to reach total of around 250 and 120 respectively.</p> | <p>The launch of further D-cinemas under the franchise model is currently delayed because of lack of fund. At the end of 2005, China and Singapore have retrofitted approximately 200 and 22 digital cinemas respectively. Many Asia markets are also inviting third-party to expand on their D-cinema franchise. One of our competitors-EVS spun-out XDC and raised €9 millions in Q4 2004 to deploy the European digital cinema network. Similar to GDC IPO plan, XDC aims to digitise 500 cinema screens over the next two years. At the same time, XDC plans to enter into Asia and America markets through its subsidiary XDC Inc. New player such as Christie/AIX is also planning to work with local players to digitize cinema screens in Asia.</p> |

**Business Objectives from 1 July 2005
to 31 December 2005 as stated in the
Prospectus**

Actual Business Progress

3. Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system).

GDC Technology begins its R&D programs to develop products that aim to meet DCI specifications published in July 2005. The DCI adopted MXF JPEG2000 Upgrade Kit is expected to be available in Q2 2006. GDC Technology has also developed Network Operations Center (NOC) software for content delivery, management and remote monitoring. New networked Server — SDM4000 Server has been developed for new applications such as in-lobby displays and digital signage. These additional products shall play an important role in providing a total end-to-end solution for our customers in 2006 and beyond.

**Business objectives from 1 July 2005
to 31 December 2005 as stated in the
Prospectus**

Actual business progress

**Provision of CG
training courses**

Continue to run the 6th CG training course in Shenzhen, the PRC and CG training course in Shanghai, the PRC.

120 students and 44 students enrolled the training course in Shenzhen and Shanghai respectively.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

The net amount of IPO Proceeds, after deduction of related commission and expenses, amounted to approximately HK\$53.3 million. A comparison of the proposed usage of IPO Proceeds made in the Prospectus and subsequently in the February Announcement against the actual usage for the period ended 31 December 2005 is set out as follows.

Application of proceeds	Proposed usage as stated in the Prospectus	Amounts utilised up to 31 December 2003 as stated in the February Announcement	Proposed usage as stated in the February Announcement (Note 1) (Approximate HK\$ million)	Adjusted proposed usage (Note 2)	Actual amounts utilised up to 31 December 2005	Difference (Note 3)
Strengthening management and international marketing team	4.9	3.3	—	3.3	13.2	9.9
Developing digital cinema distribution network	27.7	3.1	13.8	16.9	20.5	3.6
Research and development of digital cinema technologies	12.6	2.4	5.5	7.9	12.2	4.3
Production maintenance and co-financing	5.6	20.9	1.2	22.1	71.6	49.5
Working capital	2.5	3.1	—	3.1	15.0	11.9
Total	<u>53.3</u>	<u>32.8</u>	<u>20.5</u>	<u>53.3</u>	<u>132.5</u>	<u>79.2</u>

Note:

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

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

Since the publication of the Prospectus, the Directors experienced certain changes in the market conditions brought about by technological advancement in the D-cinema marketplace. As stated in the section headed “Statement of business objectives” in the Prospectus, the Group had, under the franchise business model, originally targeted the signing up to around 350 digital cinemas in the PRC and around 150 in the rest of Asia for the supply of digital projection and playback equipment by the end of 31 December 2005. The change in the amount spent on developing digital cinema distribution network was due to the Group’s delay in the implementation of the franchise business model for D-cinemas in the PRC and the rest of Asia for the reasons set forth below.

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

The Group had consequently concentrated its efforts in the sales of products to India, and the rest of the world where does not require such high resolution standard, 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 altered.

Reasons for the change of application of IPO Proceeds (adjusted as mentioned above) 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. As a result, the marketing and screening of the Film had to be delayed which had consequently affected the timing for the pre-sale of the Film. As set out in the announcement of the Company dated 19 August 2004, the Directors reported that all the production work of the Film had been completed, and intensive marketing of the Film was taking place in the US.

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

Financing of the difference of the actual amounts utilised up to 31 December 2005 and the IPO Proceeds

As mentioned above, the net amount of the IPO Proceeds, after deduction of related commission and expenses, amounted to approximately HK\$53.3 million. Further, as disclosed in the announcement of the Company dated 19 August 2004, the IPO Proceeds have been fully utilised. The Group utilised a total funding of approximately HK\$132.5 million from the period of the listing of the shares of the Company in August 2003 up to 31 December 2005, therefore exceeded the adjusted proposed usage of IPO Proceeds by approximately HK\$79.2 million. The Group financed such additional applications by, among others, (i) the placing of shares of the Company as disclosed in the announcement of the Company dated 5 May 2004; (ii) the unsecured loans provided by Mr. Anthony Francis Neoh (former Joint chairman and former non-executive Director); and (iii) the unsecured loans provided by SCG Finance.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue of the Group for the year ended 31 December 2005 amounted to approximately HK\$32.2 million which, comparing with the revenue of approximately HK\$48.0 million for the year ended 31 December 2004, represented a decrease of approximately 33%.

The decrease in revenue is mainly due to the decrease in sales of digital cinema equipment as a result of deferral of placing orders from customers during the year while they were waiting for the issuance of industrial technical standard. The potential customers concerned the upgradeability/compatibility of the GDC equipment for compliance with the industrial technical standard and therefore adopted a “wait and see” approach. At the same time, increase in income generated from computer graphic (“CG”) creation and production and from CG training courses partly compensated the decrease in sales of digital cinema equipment.

Costs of sales for the year ended 31 December 2005 amounted to approximately HK\$34.8 million which, comparing with the costs of sales of approximately HK\$35.3 million for the year ended 31 December 2004, represented a decrease of approximately 1%. Costs of sales decreased to an extent less than turnover decreased mainly because the Group started business as a subcontractor of CG creation and production during the year and has not generated profit after deducting certain starting up costs from this new business. The Group maintained gross profit in the business of sales of digital cinema equipment and exhibitions and CG training.

Allowance for production work in progress made during the year ended 31 December 2005 amounted to approximately HK\$24.7 million which, comparing with allowance for production work in progress of approximately HK\$84.6 million made during the year ended 31 December 2004, represent a decrease of approximately 71%. As most of the costs incurred and capitalised for the production of an animation movie *Thru the Moebius Strip* (the “**Movie**”) and a television series *Panshel’s World* (“**Panshel**”) had been provided for during the year ended 31 December 2004, allowance of the same nature made during the year decreased. As the prospects for full recovery of the cost incurred and capitalized for the Movie is uncertain, the Directors consider that it is no longer proper keeping such costs as an asset and therefore make full allowance for the costs. Cost incurred and capitalized for Panshel had already been fully provided for during the year ended 31 December 2004.

Distribution costs for the year ended 31 December 2005 amounted to approximately HK\$2.0 million which, comparing with distribution costs of approximately HK\$4.2 million for the year ended 31 December 2004, represented a decrease of approximately 52%. The decrease in the distribution costs was in line with the decrease in sale of digital cinema equipment.

Administrative expenses for the year ended 31 December 2005 amounted to approximately HK\$37.4 million which, comparing with administrative expenses of approximately HK\$34.7 million, represented an increase of approximately 8%. The slight increase was mainly attributable to expenses related to the restructure of management which was implemented for improving internal control and efficiency of the Group.

Impairment losses recognised for property, plant and equipment during the year ended 31 December 2005 amounted to approximately HK\$2.4 million which, comparing with losses of the same nature of approximately HK\$14.9 million recognised during the year ended 31 December 2004, represented a decrease of approximately 84%. The losses recognised during the year ended 31 December 2004 was the full amount of net book value of leasehold improvements of a premises rented by the Group and from which the Group was relocating. The losses recognised during the year was the full amount of net book values of computer equipment and digital film encoders and servers, which were impaired due to physical damage and technical obsolescence.

Finance costs for the year ended 31 December 2005 amounted to approximately HK\$7.7 million which, comparing with finance costs of approximately HK\$5.5 million, represented an increase of approximately 40%. The increase in finance costs was mainly due to the increase in interest costs as a result of increase in outstanding balance of bank and other borrowings. The Group incurred loss for the year ended 31 December 2005 and the years before. The Group's operation as well as property, plant and equipment acquired for the Group's development was partly financed by the bank and other borrowings and loan from a fellow subsidiary.

As an overall result, the Group incurred a loss of HK\$76.4 million for the year ended 31 December 2005 which, comparing with the loss of approximately HK\$131.2 million for the year ended 31 December 2004, represented a decrease of approximately 42%.

Business review

The Company has adjusted its strategy and entered into the business of subcontractor of CG creation and production, while developing its businesses in digital content distribution and exhibitions and CG training.

CG creation and production

Post production works for the Movie have been completed. However, as market response to the Movie was different from expected, the Directors considered the financial result of the release of the Movie to the market is uncertain.

During the year under review, the Group entered into the business of subcontractor of CG creation and production, for including TV series, games and commercials, that is expected to bring steady income to the Group. By 31 December 2005, the Group has concluded several contracts and started related production. As it was a new business and was started in the second half of the year, the Group has not generated profit after deducting starting up costs from the business. However, from orders received after the year end, the new business is expected to be successful.

Digital content distribution and exhibitions

Market environment for digital cinema equipment was not favourable during the year under review. Potential customers concerned the upgradeability/compatibility of the Group's products in compliance with the new industrial technical standard. For this reason, some of the potential customers has deferred placement of orders until the standard was issued in July 2005. In the second half of the year 2005, after the industrial technical standard having been issued, value of orders received by the Group was more than double of the value in the first half of the year.

CG training

Revenue from CG training increased mainly due to increase in both number of courses provided and average number of students attending each course, especially after the expansion of the Group's CG training center in Shanghai. The Group also expanded its capacity of providing training course by franchise arrangements.

OUTLOOK

CG creation and production

Post production works for the Movie has been completed. The Movie is scheduled to be released in the PRC in the year 2006. Activities promoting the Movie have been continuing.

The value of orders received after the year end of 2005 proves that the Group's strategy of entering the business of subcontractor of CG creation and production will be likely successful. The Group has been successful in generating net operational cash inflow by the subcontractor business in some of the months in the year 2006. The Directors aim at developing the business to be a source providing steady cash inflow based on which the Group will recover from losses incurred in previous years and develop.

As CG creation and production is an industry encouraged by central and local governments in the PRC, it is expected that the Group will be benefited by various forms of support from the governments, including tax refund, subsidies for compensation of rental and interest expenses.

Digital content distribution and exhibitions

From the recent issues of magazines related to digital cinema industry, it is believed that digital cinema will be rolled out in large scale in the year 2006. Considering that the Group's products are among those best complying with the industrial technical standard, the Group will be benefited by the expected roll-out and generate revenue substantially higher than current level. In that case, sales of digital cinema equipment will become a point of significant growth of the Group.

In view of the potential of business of sales of digital cinema equipment, the Group is strengthening its division specialised in the business by means including increasing equity investment in the division, as well as adding new shareholders to the division. The Group will also continue invest in research and development in technology of digital cinema in order to maintain the Group's leading position in the industry and to capture the largest possible benefit from the expected roll-out of digital cinema.

CG training

The Group is expanding its capacity and geographic coverage of providing CG training course by both expansion of its own facilities and increasing franchise partners. The segment will continue to be a profitable division of the Group.

Liquidity and Financial Resources

The Group had bank balances and cash and pledged bank deposits of approximately HK\$20.1 million as at 31 December 2005 (2004: HK\$5.6 million) which were mainly denominated in Hong Kong dollars and Renminbi. The increase was mainly the result of that, at the balance sheet date, the Group was restructuring/renewing bank borrowing in funding the Group's operations. Balances of pledged bank deposits decreased subsequent to the balance sheet date, upon the renewal of the related bank borrowing.

The Group's borrowings amounted to approximately HK\$107.3 million as at 31 December 2005 which comprised approximately HK\$105.4 million and HK\$1.9 million repayable within one year and repayable more than one year as at 31 December 2005. 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 both 31 December 2005 and 2004.

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.

Charge on assets

As at 31 December 2005, pledged bank deposits, computer equipment and motor vehicles with carrying value of approximately HK\$16.5 million, HK\$2.3 million and HK\$21,000, respectively, and the Group's entire interests in the registered capital of IDMT (Shenzhen), 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 2005, the Group recorded capital deficiency of approximately HK\$128.2 million which was mainly financed by internal resources, bank and other borrowings. The capital deficiency was mainly arisen from the loss incurred during the year of approximately HK\$76.4 million and of previous years.

Contingent liabilities

The Company has given guarantees of approximately HK\$16.4 million to banks and other parties in respect of general facilities granted to its subsidiaries. Such facilities utilised by the subsidiaries at 31 December 2005 amounted to approximately HK\$14.4 million (2004: HK\$38.1 million).

Litigation

- (i) On 14 May 2003, 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 summary summons judgment and then modified their claims against GDC Entertainment in the Court of Commerce of Angouleme (France) for breach of the Co-production Agreement.

In relation to their claims, the French legal adviser holds his opinion that (i) in any event, the summary judgements 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 PP&M 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 notice of arbitration dated 16 June 2005. In the arbitration, issues will be raised by GDC Entertainment as to whether P&PM and/or WAMC was in repudiatory breach of the Co-production Agreement which entitled GDC Entertainment to terminate the same and claim damages from P&PM and WAMC. Pleadings have not yet exchanged 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. As at this announcement date, the arbitrator has issued her decision and concluded that she has jurisdiction to determine the disputes referred to her in GDC Entertainment's Notice of Arbitration.

- (ii) During the year, a court order was issued from a court in Shanghai against IDMT Shenzhen, in respect of a loan amounting to RMB9,262,000 payable to 上海新長寧(集團)有限公司. Accordingly to the court order, the assets of IDMT Shenzhen amounting to RMB9,262,000 were frozen. On 1 March 2006, both parties entered into a mutual settlement agreement and RMB3 million was subsequently repaid after the year ended 31 December 2005 based on the agreed repayment schedule. The court order for the cancellation of such dispute has been issued from the court on 14 March 2006.

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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Code on Corporate Governance Practices (the "Code") (with the exception of code provision C.2 on internal control which is effective for accounting periods commencing on or after 1 July 2005) as set out in Appendix 15 of the GEM Listing Rules during the year ended 31 December 2005 and the Company has applied the Code as the general guiding principle in corporate governance, except for the following deviations:

- Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

Not all non-executive Directors were appointed for a specific term. However, all of them are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the bye-laws of the Company. Service contracts will be signed with those non-executive Directors.

- Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being, or their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, provided that no Director holding office as chairman or managing director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. To comply with the code provision, amendment to the bye-laws of the Company will be proposed at the next general meeting of the Company for approval by the shareholders such that all directors (including chairman and managing director) will be subject to retirement by rotation at least once every three years.

- Under code provision B.1.1 of the Code, listed issuers should establish a remuneration committee with specific written terms of reference. A majority of the members of the remuneration committee should be independent non-executive directors.

The remuneration committee consists of three members, only one of them is an independent non-executive Director during the year ended 31 December 2005. Two independent non-executive Directors were appointed as members of remuneration committee during the year ended 31 December 2005 so as to comply with the Code.

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, except for 30 and 31 December 2005 when the committee had less than 3 members, met four times during the financial year ended 31 December 2005. 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.

RESUMPTION IN THE TRADING OF THE SHARES

Trading in the shares of the Company has been suspended at the request of the Company with effect from 2:30 p.m. on 31 March 2006 pending the publication of the annual results announcement of the Company. The Company has applied to The Stock Exchange of Hong Kong Limited for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 21 April 2006, subsequent to the publication of the annual results announcement of the Company for the year ended 31 December 2005.

As at the date of this announcement, the Board comprised Mr. Cao Zhong (Chairman and Non-Executive Director); Mr. Leung Shun Sang, Tony (Non-Executive Director); Mr. Chen Zheng (Chief Executive Officer and Executive Director); Mr. Jin Guo Ping and Dr. Catherine Xu Qing (Vice Presidents and Executive Directors); Dr. David Deng Wei (Vice-Chairman and Non-Executive Director); Mr. Gordon Kwong Che Keung, Mr. Bu Fan Xiao and Mr. Stephen Hui Hung, (Independent Non-Executive Directors).

By Order of the Board
Global Digital Creations Holdings Limited
Chen Zheng
Executive Director

Hong Kong, 20 April 2006