GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code: 8271)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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

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

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

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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

FINAL RESULTS

The board of Directors (the "Board") hereby announces the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006, together with the audited comparative figures for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	4 & 5	**54,920**	32,195
Cost of sales		**(30,135)**	(34,848)
Allowance for production work in progress		**–**	(24,712)
Gross profit (loss)		**24,785**	(27,365)
Other income		**1,099**	645
Distribution costs		**(6,479)**	(2,031)
Administrative expenses		**(38,365)**	(37,429)
Impairment losses recognised in respect of property, plant and equipment		**–**	(2,350)
Finance costs	6	**(13,080)**	(7,675)
Gain on disposal of partial interest in a subsidiary		**1,795**	–
Loss before tax		**(30,245)**	(76,205)
Income tax expense	7	**–**	(151)
Loss for the year	8	**(30,245)**	(76,356)
Dividends	9	**N/A**	N/A
Loss per share	10		
Basic		**(3.78 HK cents)**	(9.53 HK cents)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	11	**4,868**	6,301
Available-for-sale investment		**–**	–
		4,868	6,301
Current assets			
Inventories		**2,469**	1,157
Production work in progress		**–**	951
Amounts due from customers for contract work	12	**808**	–
Trade receivables	13	**6,080**	3,664
Prepayments, deposits and other receivables		**3,680**	2,124
Pledged bank deposits		**–**	16,455
Bank balances and cash		**8,596**	3,667
		21,633	28,018
Current liabilities			
Income received in advance		**6,701**	2,725
Amounts due to customers for contract work	12	**1,850**	–
Trade payables	14	**2,838**	1,065
Other payables and accruals		**29,288**	23,615
Amounts due to fellow subsidiaries		**12,284**	18,783
Amounts due to directors		**2,308**	2,116
Amount due to a shareholder		**339**	339
Amounts due to related parties		**1,501**	5,125
Loan from a fellow subsidiary – due within one year		**–**	43,983
Loans from related parties		**1,209**	22,457
Obligations under finance leases – due within one year		**1,484**	3,468
Bank borrowings – due within one year	15	**10,000**	27,210
Other loans		**18,295**	8,243
		88,097	159,129
Net current liabilities		**(66,464)**	(131,111)
Total assets less current liabilities		**(61,596)**	(124,810)

	Note	**2006**	2005
		HK$'000	*HK$'000*
Non-current liabilities			
Loan from a fellow subsidiary – due after one year		**92,169**	–
Obligations under finance leases – due after one year		**489**	1,907
Amount due to a related party – due after one year		**455**	1,495
		93,113	3,402
		(154,709)	(128,212)
Capital and reserves			
Share capital	*16*	**8,008**	8,008
Share premium and reserves		**(163,034)**	(136,220)
Equity attributable to equity holders of the parent		**(155,026)**	(128,212)
Equity component of share option reserve of a subsidiary		**317**	–
		(154,709)	(128,212)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

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

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2006

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

	2006	2005
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Decrease/(increase) in pledged bank deposits	**16,455**	(14,451)
Purchase of property, plant and equipment	**(3,504)**	(424)
Interest received	**69**	66
Proceeds from disposal of property, plant and equipment	**453**	4
Proceeds from disposal of partial interest in a subsidiary (net of expenses)	**1,767**	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**15,240**	(14,805)
FINANCING ACTIVITIES		
Increase in loan from a fellow subsidiary	**33,740**	33,140
Bank loans raised	**10,000**	12,487
(Repayment to)/advance from related parties	**(4,417)**	5,885
Repayment of bank loans	**(28,236)**	(15,055)
Interest paid	**(1,066)**	(6,253)
Repayment of obligations under finance leases	**(3,402)**	(5,843)
Repayment to shareholders	**–**	(1,808)
Repayment of other loans	**(8,615)**	–
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	**(1,996)**	22,553
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,917**	2,088
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**12**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**3,667**	1,579
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**8,596**	3,667

NOTES:

1. BASIS OF PREPARATION

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

(1) Availability of facilities

The amount available to the Group for borrowings under the facilities granted by SCG Finance Corporation Limited ("SCG Finance"), a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand"), the ultimate holding company of the Company and its shares are listed on the Stock Exchange, at 31 December 2006 is HK$100,000,000, of which approximately HK$92,169,000 is utilised as at 31 December 2006. The facilities are available up to 31 December 2008.

(2) Financial support

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

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

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

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

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Going concern

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

Allowance for bad and doubtful debts

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

Provision for litigations

The management of the Group monitor any litigation against the Group closely. Provision for the litigations is made based on the opinion of the legal adviser on the possible outcome and liability of the Group. As at 31 December 2006, there is no foreseeable financial impact to the Group and no provision for litigations has been made. Details are set out in note 17.

4. REVENUE

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

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

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

5. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions – CG creation and production, distribution and exhibitions of digital content and the provision of CG training courses. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2006

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

At 31 December 2006

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

For the year ended 31 December 2005

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

At 31 December 2005

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

(b) Geographical segments

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

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

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
The income tax expense comprises:		
Deferred tax	–	151

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

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

8. Loss for the year

	2006	2005
	HK$'000	*HK$'000*
Loss for the year was arrived at after charging:		
Staff costs, including directors' emoluments:		
– Salaries, wages and other benefits	**30,919**	28,732
– Retirement benefit scheme contributions	**403**	483
Total staff costs	**31,322**	29,215
Less: amounts included in production work in progress	**–**	(14,083)
amounts included in contracts work in progress	**(1,791)**	–
amounts included in research and development costs	**(2,422)**	(2,324)
government grants	**(835)**	–
	26,274	12,808

	2006	2005
	HK$'000	*HK$'000*
Allowance for bad and doubtful debts	**1,660**	521
Auditors' remuneration	**1,572**	1,043
Depreciation	**5,086**	7,860
Less: amounts included in production work in progress	**–**	(4,259)
amounts included in contracts work in progress	**(1,829)**	–
government grants	**(292)**	–
	2,965	3,601
Exchange (gain)/loss, net	**(610)**	353
Cost of inventories recognised as an expense	**7,470**	6,980
Loss on disposal of property, plant and equipment	**–**	9
Minimum lease payments under operating leases for land and buildings	**3,318**	2,302
Less: amounts included in production work in progress	**–**	(1,759)
amounts included in contracts work in progress	**(2,278)**	–
	1,040	543
Research and development costs	**2,422**	2,324
and after crediting:		
Gain on disposal of property, plant and equipment	**453**	–
Interest income	**69**	66

9. Dividends

The Directors do not recommend the payment of final dividend for the year ended 31 December 2006 (2005: Nil).

10. Loss per share

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

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

11. PROPERTY, PLANT AND EQUIPMENT

	Carrying values
	HK$'000
As at 1 January 2006	6,301
Exchange realignment	149
Additions	3,504
Depreciation	(5,086)
Disposals	–
As at 31 December 2006	4,868

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

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

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

13. TRADE RECEIVABLES

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

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

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

14. TRADE PAYABLES

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

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

15. BANK BORROWINGS

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

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

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

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

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

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

16. SHARE CAPITAL

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

17. LITIGATIONS

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

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

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

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

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

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

18. POST BALANCE SHEET EVENTS

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

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

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

The GDC Tech Subscription was completed subsequently in January 2007.

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

The GDC Subscription was also completed subsequently in January 2007.

Liquidity and financial resources

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

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

Capital structure

As at 31 December 2006, the Group recorded capital deficiency of approximately HK$154.7 million (2005: HK$128.2 million) which was mainly financed by internal resources, bank and other borrowings. The increase in capital deficiency was mainly arisen from the loss of approximately HK$30.2 million incurred during the year under review.

Material acquisition, disposals and significant investment

Other than the transfer of 15% interest in GDC Technology which mentioned in the "Management discussion and analysis" section, the Group had no material acquisitions, disposals and investment during the year ended 31 December 2006.

Charge on assets

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

Foreign exchange exposure

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

Contingent liabilities

Saved as disclosed in Note 17 about litigations proceeding, the Group had no significant contingent liabilities as at 31 December 2006.

Employees

As at 31 December 2006, the Group employed 351 (31 December 2005: 330) full time employees. The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group.

Management discussion and analysis

Financial Overview

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

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

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

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

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

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

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

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

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

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

Business review

CG Creation and Production

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

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

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

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

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

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

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

For the year 2006, the Group's CG creation and production subsidiary has achieved revenue of approximately HK$30.4 million, gross profit of approximately HK$15.0 million, the operations expanded dramatically. It is the first time for the Group's CG creation and production business to have operating cash flow breakeven in its entire history. This result may not come cross as impressive when compared with businesses in some other industry, however, for any large scale CG animation production company in the world, very few can reach this level of operation efficiency within six years, as the threshold for this type of business is very high, and the complexity of management is also high. Such results is almost unique among large-scale 3 Dimension animation companies in China, Hong Kong and Taiwan, implying that the Group will record profit in the coming year. The Group's results and publicity had undisputedly established the Group's CG production studio as the number one CG animation production studio in China and one of the best in Asia.

CG Training

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

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

The Group had achieved approximately 26% revenue growth and cash flow positive for the CG training business in 2006.

Digital Content Distribution and Exhibitions Business

The decrease in the revenue from digital content distribution and exhibitions was mainly due to delay of the launch of its new products in compliance with the new industrial technical standard. The Group's Digital cinema subsidiary, GDC Technology completed the development of digital cinema products that supported the latest JPEG2000 and launched its second generation digital cinema ("D-cinema") server at Beijing International Radio, TV & Film Equipment Exhibition 2006 (BIRTV) in August 2006. This new model SA2000 DSR™ Digital Film Server is a "hybrid" server allows users to exhibit digital cinema contents on JPEG2000 format, which is in complying with certain specifications adopted by the Digital Cinema Initiatives, LLC ("DCI") and maintains its backward compatibility with the MXF MPEG2 Interop format. The same SA2000 Server also plays out alternative contents such as pre-show entertainment, on-screen-advertisement and high definition television live-events in high quality without the need for another server. In late 2006, a couple of Hollywood blockbusters were also released in JPEG2000 formats to this newly upgraded SA2000 servers. Since the launch of their new SA2000 server, GDC Technology had received orders and upgraded from customers to the new SA2000 servers.

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

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

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

Outlook

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

In CG creation and production business, the Group expect to see that more world class clients requesting services and co-production partnership from them, generating a steady and profitable revenue stream in the near term; the existing co-production deals generating moderate upside on back end revenue; their clients will become the creative and world wide distribution partners for their future original content creation effort. At the time of writing this report, the Group can already see solid deals being sealed to fill their existing production capacity, the Group may even have to expand or out-source some of their work this year to fulfill the market demand.

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

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

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

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

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

Purchase, sale or redemption of listed securities of the Company

During the year ended 31 December, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate governance

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period from 1 January 2006 to 31 December 2006.

Audit Committee

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

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2006 which is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures have been made.

By Order of the Board
Chen Zheng
Executive Director and Chief Executive Officer

Hong Kong, 13 March 2007

As at the date of this announcement, the executive Directors of the Company are Mr. Cao Zhong, Mr. Chen Zheng, Mr. Jin Guo Ping and Dr. Xu Qing, Catherine, the non-executive Director is Mr. Leung Shun Sang, Tony, the independent non-executive Directors are Mr. Kwong Che Keung, Gordon, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen.