

2007
Interim Report

CG Creation, Production

CG Training

Digital Content Distribution and Exhibitions



Global Digital Creations Holdings Limited
環球數碼創意控股有限公司*

(Incorporation in Bermuda with limited liability)

(Stock Code : 8271)

* For identification purpose only

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

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CORPORATE INFORMATION

Board of Directors

Cao Zhong (*Chairman and Executive Director*)
Chen Zheng (*Chief Executive Officer and Executive Director*)
Jin Guo Ping (*Vice President and Executive Director*)
Xu Qing, Catherine (*Vice President and Executive Director*)
Leung Shun Sang, Tony (*Non-executive Director*)
Kwong Che Keung, Gordon
(*Independent Non-executive Director*)
Bu Fan Xiao (*Independent Non-executive Director*)
Hui Hung, Stephen (*Independent Non-executive Director*)

Audit Committee

Kwong Che Keung, Gordon (*Chairman*)
Bu Fan Xiao
Hui Hung, Stephen

Nomination Committee

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

Remuneration Committee

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

Company Secretary

Cheng Man Ching

Qualified Accountant

Chiu Ming Kin

Compliance Officer

Chen Zheng

Auditor

Deloitte Touche Tohmatsu

Principal Registrars

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

CORPORATE INFORMATION *(Continued)*

Hong Kong Branch Share Registrars and Transfer Office	Tricor Standard Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal Office in Hong Kong	6th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Stock Code	8271
Website	www.gdc-world.com

INTERIM RESULTS

The board of Directors of the Company (the "Board") is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30 June 2007 with comparative figures for the corresponding periods in 2006. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the periods ended 30 June 2007

	NOTES	Three months ended 30 June		Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue	3	20,397	9,682	40,109	18,323
Cost of sales		(10,681)	(6,174)	(18,180)	(11,248)
Allowance for production work in progress		-	(125)	-	(125)
Gross profit		9,716	3,383	21,929	6,950
Other income	5	1,491	109	9,047	294
Distribution costs		(655)	(1,561)	(2,540)	(3,887)
Administrative expenses		(14,940)	(7,152)	(24,776)	(16,049)
Finance costs	6	(1,003)	(3,383)	(3,430)	(6,151)
Gain on dilution of interest in a subsidiary	7	-	-	40,295	-
(Loss) profit for the period		(5,391)	(8,604)	40,525	(18,843)
Attributable to:					
Equity holders of the parent		(4,138)	(8,604)	40,920	(18,843)
Minority interests		(1,253)	-	(395)	-
		(5,391)	(8,604)	40,525	(18,843)
(Loss) earnings per share	10	HK cents	HK cents	HK cents	HK cents
Basic		(0.37)	(1.07)	4.19	(2.35)
Diluted		N/A	N/A	4.02	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	<i>NOTES</i>	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	18,616	4,868
Prepaid lease payments	12	5,157	–
		23,773	4,868
Current assets			
Inventories		4,595	2,469
Amounts due from customers for contract work	13	2,374	808
Trade receivables	14	13,643	6,080
Prepayments, deposits and other receivables		7,728	3,680
Amount due from a related party	15	10,000	–
Prepaid lease payments	12	105	–
Pledged bank deposit	16	7,903	–
Bank balances and cash		198,187	8,596
		244,535	21,633
Current liabilities			
Income received in advance		10,127	6,701
Amounts due to customers for contract work	13	4,056	1,850
Trade payables	17	1,651	2,838
Other payables and accruals		17,947	29,288
Amounts due to fellow subsidiaries		157	12,284
Amounts due to directors		962	2,308
Amount due to a shareholder		339	339
Amounts due to related parties		1,002	1,501
Loans from related parties		–	1,209
Obligations under finance leases – due within one year		794	1,484
Secured bank borrowings – due within one year	18	13,000	10,000
Other loans		–	18,295
		50,035	88,097

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30 June 2007

	30 June 2007	31 December 2006
	HK\$'000	HK\$'000
<i>NOTE</i>	(unaudited)	(audited)
Net current assets (liabilities)	194,500	(66,464)
Total assets less current liabilities	218,273	(61,596)
Non-current liabilities		
Loan from a fellow subsidiary		
– due after one year	17,308	92,169
Obligations under finance leases		
– due after one year	86	489
Amount due to a related party		
– due after one year	178	455
	17,572	93,113
Net assets (liabilities)	200,701	(154,709)
Capital and reserves		
Share capital	19	8,008
Share premium and reserves	178,811	(163,034)
Equity attributable to equity holders of the parent	190,847	(155,026)
Equity component of share options reserve of a subsidiary	309	317
Minority interests	9,545	–
Total equity	200,701	(154,709)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2007

	Attributable to equity holders of the parent								Equity component of share options			Total
	Share capital	Share premium account	Capital contribution reserve	Contributed surplus	Statutory reserve	Share options reserve	Exchange reserve	Deficit	Total	reserve of a subsidiary	Minority interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006 (audited)	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	-	-	-	-	-	-	(143)	-	(143)	-	-	(143)
Loss for the period	-	-	-	-	-	-	-	(18,843)	(18,843)	-	-	(18,843)
Total recognised expense for the period	-	-	-	-	-	-	(143)	(18,843)	(18,986)	-	-	(18,986)
At 30 June 2006 (unaudited)	8,008	92,438	445	40,271	680	-	(187)	(288,853)	(147,198)	-	-	(147,198)
At 1 January 2007 (audited)	8,008	92,438	445	40,271	680	5,590	(2,205)	(300,253)	(155,026)	317	-	(154,709)
Exchange differences on translation of operations												
outside Hong Kong recognised directly in equity	-	-	-	-	-	-	(678)	-	(678)	-	-	(678)
Profit for the period	-	-	-	-	-	-	-	40,920	40,920	-	(395)	40,525
Total recognised (expense) income for the period	-	-	-	-	-	-	(678)	40,920	40,242	-	(395)	39,847
Sub-total	8,008	92,438	445	40,271	680	5,590	(2,883)	(259,333)	(114,784)	317	(395)	(114,862)
Shares issued	3,600	285,944	-	-	-	-	-	-	289,544	-	-	289,544
Transaction costs attributable to issue of shares	-	(6,707)	-	-	-	-	-	-	(6,707)	-	-	(6,707)
Increase in minority share of a subsidiary	-	-	-	-	-	-	-	-	-	-	9,940	9,940
Exercise of share options	428	19,149	-	-	-	(4,716)	-	-	14,861	-	-	14,861
Recognition of equity-settled share-based payments	-	-	-	-	-	7,925	-	-	7,925	-	-	7,925
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	8	8	(8)	-	-
At 30 June 2007 (unaudited)	12,036	390,824	445	40,271	680	8,799	(2,883)	(259,325)	190,847	309	9,545	200,707

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the period ended 30 June 2007*

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss) for the period	40,525	(18,843)
Adjustments for:		
Gain on dilution of interest in a subsidiary	(40,295)	–
Other non-cash items	4,278	8,786
Operating cash flows before movements in working capital	4,508	(10,057)
Movements in working capital	(43,235)	3,205
Net cash used in operating activities	(38,727)	(6,852)
Net cash from investing activities:		
Purchase of property, plant and equipment	(15,340)	(1,852)
Proceeds from issue of shares by a subsidiary to a minority shareholder, net of transaction costs	50,235	–
Purchase of prepaid lease payments	(5,262)	–
(Increase) decrease in pledged bank deposit	(7,903)	16,455
Other investing cash flows	1,487	45
	23,217	14,648
Net cash from (used in) financing activities:		
New bank loan raised	13,000	12,487
Proceeds from issue of shares, net of transaction costs	282,837	–
Exercise of share options	14,861	–
Repayment of bank loans	(10,000)	(26,400)
Repayment to related parties	(2,076)	(379)
Repayment of other loans	(14,139)	(6,909)
(Repayment of) increase in loan advanced from a fellow subsidiary	(74,861)	20,956
Other financing cash flows	(4,521)	(3,873)
	205,101	(4,118)
Net increase in cash and cash equivalents	189,591	3,678
Cash and cash equivalents at beginning of the period	8,596	1,417
Cash and cash equivalents at end of the period	198,187	5,095

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended 30 June 2007

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The Directors are in the process of assessing the potential impact and expect that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the periods ended 30 June 2007

3. REVENUE

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

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

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CG creation and production income	13,883	5,867	22,252	9,568
Sales of goods	3,846	1,675	12,456	4,421
Training fee	2,060	1,961	4,261	3,887
Technical service income	608	76	1,140	225
Rental income from equipment leasing	-	103	-	222
	20,397	9,682	40,109	18,323

4. SEGMENT INFORMATION

Business segments

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

Segment information about these businesses is presented below:

Six months ended 30 June 2007

	CG creation and production HK\$'000	Digital content distribution and exhibitions HK\$'000	CG training courses HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	22,252	13,596	4,261	40,109
RESULT				
Segment result	8,537	(128)	751	9,160
Unallocated corporate income				5,649
Unallocated corporate expenses				(11,149)
Finance costs				(3,430)
Gain on dilution of interest in a subsidiary	-	40,295	-	40,295
Profit for the period				40,525

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)**For the periods ended 30 June 2007***4. SEGMENT INFORMATION** *(Continued)**Business segments (Continued)**Six months ended 30 June 2006*

	CG creation and production HK\$'000	Digital content distribution and exhibitions HK\$'000	CG training courses HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	9,568	4,868	3,887	18,323
RESULT				
Segment result	(4,409)	(6,330)	(34)	(10,773)
Unallocated corporate income				46
Unallocated corporate expenses				(1,965)
Finance costs				(6,151)
Loss for the period				(18,843)

5. OTHER INCOME

Other income includes interest payable on other loans and rental payable to 深圳大學文化科技服務有限公司 of approximately HK\$4,156,000 and HK\$3,228,000, respectively for the six months ended 30 June 2007, which have been waived.

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Loan from a fellow subsidiary	713	2,288	2,892	3,923
Bank borrowings wholly repayable within five years	225	232	385	664
Loans from related parties	42	766	91	1,352
Finance leases	23	93	59	207
Others	–	4	3	5
	1,003	3,383	3,430	6,151

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the periods ended 30 June 2007

7. GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount represents the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) by a subscriber, which is a company incorporated in the British Virgin Islands and beneficially wholly-owned by a substantial shareholder of Shougang Concord Grand (Group) Limited ("Shougang Grand"), the ultimate holding company of the Company and its shares are listed on the Stock Exchange. Details of which were set out in the Company's circular dated 27 December 2006.

8. INCOMETAX EXPENSE

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

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the People's Republic of China (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 ("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 the tax rate in the next three years. No provision for PRC EIT has been made in the condensed consolidated financial statements for both periods as the subsidiaries in the PRC are in a tax loss position.

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)**For the periods ended 30 June 2007***10. (LOSS) EARNINGS PER SHARE**

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

Three months ended		Six months ended	
30 June		30 June	
2007	2006	2007	2006
HK\$'000	HK\$'000	HK\$'000	HK\$'000

(Loss) earnings

(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the period attributable to equity holders of the parent)

(4,138)	(8,604)	40,920	(18,843)
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'000	'000	'000	'000
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Number of shares

Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share

1,112,833	800,820	975,968	800,820
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Effect of dilutive potential ordinary shares:

35,928	–	42,995	–
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Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share

1,148,761	800,802	1,018,963	800,820
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11. PROPERTY, PLANT AND EQUIPMENT**Carrying values**

HK\$'000

At 1 January 2007 (audited)	4,868
Additions	15,340
Depreciation for the period	(1,560)
Disposals	(20)
Exchange realignment	(12)
At 30 June 2007 (unaudited)	18,616

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)**For the periods ended 30 June 2007***12. PREPAID LEASE PAYMENTS**

During the six months ended 30 June 2007, the Group acquired a medium-term leasehold land in the PRC for a consideration of approximately HK\$5,262,000.

The Group has not obtained the land use right certificate as at 30 June 2007.

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

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Contract costs incurred plus recognised profits		
less recognised losses	22,992	18,488
Less: progress billings	(24,674)	(19,530)
	(1,682)	(1,042)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	2,374	808
Amounts due to customers for contract work	(4,056)	(1,850)
	(1,682)	(1,042)

14. 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 trade receivables at the balance sheet date:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within three months	10,841	5,514
Three to six months	1,475	519
Six to nine months	1,327	47
	13,643	6,080

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)**For the periods ended 30 June 2007***15. AMOUNT DUE FROM A RELATED PARTY**

During the six months ended 30 June 2007, the Group advanced RMB10 million (or equivalent to approximately HK\$10 million) to a jointly controlled entity of Shougang Concord Technology Holdings Limited ("Shougang Technology"). Shougang Holding (Hong Kong) Limited is the shareholder of both Shougang Technology and Shougang Grand. The amount was unsecured, carried interest at 11% per annum, and was repayable on demand. Subsequent to the balance sheet date, the amount was settled.

16. PLEDGED BANK DEPOSIT

The amount represents a deposit pledged to a bank to secure purchase agreements entered into with an independent third party.

The deposit carries interest rate at 4.85% per annum. The pledged bank deposit will be released upon the settlement of the relevant purchase agreements.

17. TRADE PAYABLES

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within three months	1,651	2,688
Three to six months	–	150
	1,651	2,838

18. SECURED BANK BORROWINGS

During the six months ended 30 June 2007, the Group obtained a new bank loan of approximately HK\$13 million and repaid a bank loan of approximately HK\$10 million in accordance with the repayment terms. The new bank loan raised is secured by pledge of a property of a subsidiary of Shougang Grand, carries interest at market rates of 6.73% per annum, and is repayable within twelve months from the balance sheet date. The proceed was used as general working capital for the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)**For the periods ended 30 June 2007***19. SHARE CAPITAL**

	Number of ordinary shares	Share capital HK\$'000
Ordinary share of HK\$0.01 each		
Authorised:		
At 1 January 2007	1,200,000,000	12,000
Increase during the period	1,200,000,000	12,000
At 30 June 2007	2,400,000,000	24,000
Issued and fully paid:		
At 1 January 2007	800,820,000	8,008
Issue of shares	360,000,000	3,600
Exercise of share options	42,769,500	428
At 30 June 2007	1,203,589,500	12,036

20. SHARE-BASED PAYMENT

The Company has a share options scheme for eligible Directors, employees and other participants of the Group. Details of the share options outstanding during the six months ended 30 June 2007 are as follows:

	Number of share options
Outstanding at 1 January 2007	69,848,380
Granted during the period	10,230,000
Exercised during the period	(42,769,500)
Outstanding at 30 June 2007	37,308,880

The closing price of the Company's shares on 22 March 2007 and 4 April 2007, the dates of grant of the 2007 share options, with 3,000,000 and 7,230,000 share options, was HK\$1.07 and HK\$1.52, respectively.

In the current period, 3,000,000 and 7,230,000 share options were granted on 22 March 2007 and 4 April 2007, respectively. The fair values of the options determined at the dates of grant using the Binomial Option Valuation pricing model were approximately HK\$1,734,000 and HK\$6,191,000, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)**For the periods ended 30 June 2007***20. SHARE-BASED PAYMENT** *(Continued)*

The following assumptions were used to calculate the fair values of share options:

	22 March 2007	4 April 2007
Grant date share price	HK\$1.07	HK\$1.52
Exercise price	HK\$1.07	HK\$1.52
Expected life	3 years	3 years
Expected volatility	89%	97%
Dividend yield	0%	0%
Risk-free interest rate	3.88%	3.89%

Expected volatility of the Company was determined by using the historical volatility of the Company's weekly average share prices in the past three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share-based compensation expenses of approximately HK\$7,925,000 for the six months ended 30 June 2007 was included in the administrative expenses.

21. LITIGATION

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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the periods ended 30 June 2007

21. LITIGATION *(Continued)*

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

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

22. POST BALANCE SHEET EVENT

On 4 July 2007, Upper Nice Assets Ltd. ("Upper Nice") (the Company's immediate holding company), Shougang Grand and the Company entered into a placing and subscription agreement with a placing agent, pursuant to which the placing agent has agreed to, on a best effort basis, procure purchases to acquire, and Upper Nice has agreed to sell, up to 72,000,000 existing shares of the Company at the placing price of HK\$2.7 per share and Upper Nice has also conditionally agreed to subscribe for up to 72,000,000 new shares of the Company at the subscription price of HK\$2.7 per share. The placement and subscription was completed on 16 July 2007 and a total of 72,000,000 new shares were issued by the Company.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 5 to 19, which comprises the condensed consolidated balance sheet of Global Digital Creations Holdings Limited as of 30 June 2007, and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six months then ended and certain explanatory notes. The Listing Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

(Continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw to your attention that the condensed consolidated income statements for each of the three months ended 30 June 2007 and 2006 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

13 August 2007

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the six months ended 30 June 2007 was approximately HK\$40,109,000, when compared with that of approximately HK\$18,323,000 for the corresponding period in the year 2006, represented an increase of approximately 119%. The increase is mainly attributable to the increase in revenue from digital content distribution and exhibitions division, and CG creation and production division.

During the six months ended 30 June 2007, the Group's revenue from digital content distribution and exhibitions division, which mainly consisted of sales of digital cinema equipment and the relevant technical service income, amounted to approximately HK\$13,596,000, increased for approximately 179% comparing with that for the corresponding period in the year 2006. This increase was mainly due to many orders for new products in compliance with the new industrial technical standard, which was just coming out in the fourth quarter of 2006, were received during this period. The Group's revenue from CG creation and production division amounted to approximately HK\$22,252,000, increase of approximately 133% comparing with that for the corresponding period in the year 2006, a result of increase in both works from new clients and repeated orders from existing clients.

Cost of sales for the six months ended 30 June 2007 amounted to approximately HK\$18,180,000 which, comparing with that of approximately HK\$11,248,000 for the corresponding period in the year 2006, represented an increase of approximately 62%.

The Group made a gross profit of approximately HK\$21,929,000 for the six months ended 30 June 2007, representing a gross profit margin of approximately 55%. Comparing with the gross profit margin of approximately 38% for the corresponding period in the year 2006, the improvement was mainly attributable to higher margin on sales of new products of digital cinema equipment and increase in efficiency in CG creation and production division.

Other income for the six months ended 30 June 2007 amounted to approximately HK\$9,047,000 (2006: HK\$294,000) mainly represented the waiving of certain interest payable on other loans and rental payable of approximately HK\$4,156,000 and HK\$3,228,000, respectively, upon entering into settlement agreements with relevant parties during this period.

Administrative expenses for the six months ended 30 June 2007 amounted to approximately HK\$24,776,000 (2006: HK\$16,049,000), representing an increase of approximately 54%. The increase was mainly due to recognition of equity-settled share based payments of approximately HK\$7,925,000 for the share options granted during this period. Adjusted for this non-cash expense, the administrative expenses for this period just increased by approximately 5%.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Gain on dilution of interest in a subsidiary of approximately HK\$40,295,000 for the six months ended 30 June 2007 represented the gain on dilution of the Group's interest in GDC Technology from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000). With this additional funding, digital content distribution and exhibitions division is in a better position to expedite the rolling out of its business plan and enhance its research and development activities.

Overall, the Group recorded profit of approximately HK\$40,920,000 for the six months ended 30 June 2007 attributable to equity holders of the Company, when compared with that loss of approximately HK\$18,843,000 for the corresponding period in the year 2006.

BUSINESS REVIEW

Digital content distribution and exhibitions

The significant improvement in digital content distribution and exhibitions division for the six months ended 30 June 2007 was due to the availability of a new generation of digital cinema server which adopts the Digital Cinema Initiative ("DCI") specifications and receiving worldwide customers' repeat orders to upgrade their digital cinema theatres to this next generation digital cinema server throughout the world. On the other side, almost all major Hollywood feature films, such as "Spiderman 3", "Fantastic Four: Rise of the Silver Surfer", "Ocean's 13", "Pirates of the Caribbean 3: At World's End", "Shooters", "28 weeks later" and "Shrek 3", were also released digitally to worldwide cinema chains using our newly developed digital cinema servers.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

CG creation and production

The Group's business volume in CG creation and production division grows continuously since the Group changed its strategy to enter into the business of subcontracting of CG creation and production. It resulted in a profit from this division for the period, the first ever half-year profit in the history of the CG creation and production division.

During this period, while having completed several direct-to-home films and television series production projects and a co-production project, the Group continued delivering episodes of direct-to-home films and television series to clients. The production of a feature film for a client is in progress as well.

The quality of the Group's service has won recognition in the industry. Three renowned distributors headquartered in Hollywood have respectively committed to distribute one direct-to-home film and two television series produced by the Group. Such recognition has generated new orders from all the clients for the Group. At present, in addition to domestic business in the PRC, the Group has expanded its customer base to the United States of America ("USA"), Europe, Japan and Middle East region.

CG training

The Group's CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. With the best training, highest graduates employment rate and comprehensive training materials, the Group maintains a leading position in the CG professional training domain in the PRC. The Group also developed its infrastructure continuously to maintain its best training environment in the PRC. Through continued improvement in the management system and focused marketing programs, the Group recorded steady revenue growth from CG training division of approximately 10% for the six months ended 30 June 2007, comparing with the corresponding period in the year 2006.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OUTLOOK

Digital content distribution and exhibitions

The Group continues to upgrade its products and market them through participation in international trade exhibitions and high profile demonstration projects. At 2007 ShoWest convention in March 2007, the Group launched an important new digital cinema product – DCI-2000 Digital Cinema Integrated Projection System that answers to the exhibitors' need of a fully integrated projector – server system. DCI-2000 addresses some of the biggest challenges of delivering, installing, operating and maintaining of digital cinema system in cinema multiplexes. The Group also unveiled another new product – SA2100 DSR™ Digital Film Server which is 33% smaller in size and designed to meet DCI specifications such as Texas Instruments Cinelink™ 2 and Hollywood's approved forensic watermarking features. The SA2100 server is a cost-effective and flexible solution for digital cinema and alternative content sources to be playout in a seamless pipeline; various formats of content such as live interview, on-screen advertisement and feature films can be programmed to playout without the need to re-initialise the server and/or projector for different image formats.

On the other hand, there are a rapidly growing number of cinemas going digital, over 3,000 North American screens have been digitalised, nearly two-thirds of them in the past year. The biggest cinema chains in USA have announced to digitalise their cinemas next year, and a company in Europe signed "Virtual Print Fees" contracts with two major Hollywood studios in July 2007 for its roll-out plan of digital cinemas there. With the increase in demand for digital cinema equipment and the successful development of DSR™ range of products, the Group expects there will be further improvement of business in this division for the remaining part of the year 2007 and in the future.

Besides, the Group's cooperation with China Film Group Corporation, whereby to install not less than 2,000 units of digital cinema integrated projection system in the next two years, will start soon, the Group started to install digital cinema equipment in July 2007 and is expected to install 700 units by end of the year 2007 and the remaining 1,300 units will be installed not later than mid of the year 2008. This will highly accelerate the digitalisation of the film distribution and exhibitions industry in the PRC 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 the PRC as well as the pioneer in related businesses on top of its basis as a provider of digital cinema equipment worldwide.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OUTLOOK *(Continued)*

CG creation and production

Based on the orders secured up to date of this report, the Group's revenue from CG creation and production division for the whole year 2007 will have substantial growth comparing with that for the year 2006. The CG creation and production division is expected to have a profit for the year 2007 as well.

Negotiations for new orders and various partnerships are undergoing. Considering the value of orders under discussion and the clients' trust and dependency on the Group and the fact that the Group's reputation in the industry are being enhanced, it is expected that the high growth rate of revenue will be maintained in the year 2008.

Various levels of the PRC government have been continuously recognising the Group as the leader in the CG industry in the PRC and have provided the Group with various forms of support, including supporting the Group to build a new building as its headquarters.

CG creation and production division certainly is a rapidly growing market both domestically and internationally, in order to maintain the Group's leadership position in the PRC and seize the market opportunities, the Group will continuously improve its market share, production efficiency and creative ability. Besides, the Group is also actively studying the feasibility of establishment of a new studio, preliminary discussions with various parties, including local government for the potential new studio, are in progress.

CG training

With the view of great success in the CG creation and production division, attracting more students and raising market demand for graduates, the Group will design new courses emphasising practical skills and including more case studies to in line with the market needs and enhance the production capability of the students. Besides, the Group's training centre in Shanghai and Shenzhen has already certified by the local government to be a vocational training centre, and the Group is considering the establishment of its third training centre, this will strengthen the training brand of the Group in the PRC. To conclude, the Group will further expand its training network throughout the PRC with Shanghai, Shenzhen and its new training centre as the core centers. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The Group had bank balances and cash of approximately HK\$198.2 million as at 30 June 2007 (31 December 2006: HK\$8.6 million) and pledged bank deposit of approximately HK\$7.9 million as at 30 June 2007 (31 December 2006: Nil) which were mainly denominated in United States dollars, Hong Kong dollars and Renminbi. The increase was mainly from net proceeds received from the issue of shares of approximately HK\$282.8 million in total during the six months ended 30 June 2007, netting off with the repayment of borrowings of approximately HK\$104.4 million during the period.

The Group's borrowings amounted to approximately HK\$30.3 million as at 30 June 2007, of which approximately HK\$13.0 million were repayable within twelve months from 30 June 2007 and approximately HK\$17.3 million were repayable after twelve months from 30 June 2007. All loans bear interest at market rates and are wholly repayable within five years.

Gearing ratio (calculated as borrowings divided by equity attributable to equity holders of the Company) as at 30 June 2007 was approximately 16%. There was no gearing ratio presented as at 31 December 2006 as the Group recorded capital deficiency at that moment. As at 30 June 2007, the Group has current ratio of approximately 4.9 (31 December 2006: 0.2) based on current assets of approximately HK\$244.5 million and current liabilities of approximately HK\$50.0 million. The Group's leverage enhanced significantly was mainly attributable to addition funding from issue of shares during the six months ended 30 June 2007.

CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK\$190.8 million as at 30 June 2007 (31 December 2006: a capital deficiency of approximately HK\$155.0 million). The increase was mainly due to (i) net proceeds from issue of shares completed in January 2007, March 2007 and May 2007, details of which were set out in respective announcements, of approximately HK\$282.8 million in total, (ii) profit for the six months ended 30 June 2007 attributable to equity holders of the Company of approximately HK\$40.9 million, (iii) proceeds from exercise of share options of approximately HK\$14.9 million, and (iv) recognition of equity-settled share based payments of approximately HK\$7.9 million.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the dilution of interest in GDC Technology as mentioned in note 7 to the condensed consolidated financial statements, the Group had no material acquisitions, disposals and investment during the six months ended 30 June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

CHARGE ON ASSETS

As at 30 June 2007, the Group pledged a deposit amounted to approximately HK\$7.9 million (31 December 2006: Nil) to a bank to secure a facility granted to the Group.

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 30 June 2007, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 21 to the condensed consolidated financial statements about litigation proceeding, the Group had no significant contingent liabilities as at 30 June 2007.

EMPLOYEES

As at 30 June 2007, the Group employed 380 (31 December 2006: 351) full time employees. The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2007 (2006: Nil).

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

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

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

The Directors who held office at 30 June 2007 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 30 June 2007 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in rule 5.46 of the GEM Listing Rules:

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 30.06.2007
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	–	8,008,200	8,008,200	0.67%
Chen Zheng	Beneficial owner	8,008,200	–	8,008,200	0.67%
Jin Guo Ping	Beneficial owner	–	8,008,200	8,008,200	0.67%
Xu Qing, Catherine	Beneficial owner	–	8,008,200	8,008,200	0.67%
Leung Shun Sang, Tony	Beneficial owner	8,008,200	–	8,008,200	0.67%
Kwong Che Keung, Gordon	Beneficial owner	–	800,820	800,820	0.07%
Bu Fan Xiao	Beneficial owner	–	800,820	800,820	0.07%
Hui Hung, Stephen	Beneficial owner	800,820	–	800,820	0.07%

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

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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in Shougang Grand			Total interests as to % to the issued share capital of Shougang Grand as at 30.06.2007
		Interests			
		Interests in shares	under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	8,278,679	11,368,000	19,646,679	1.71%
Chen Zheng	Beneficial owner	–	11,368,000	11,368,000	0.99%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	11,368,679	19,646,679	1.71%

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

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

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Tech			Total interests as to % to the issued share capital of GDC Tech as at 30.06.2007
		Interests			
		Interests in shares	under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	4,266,667	4,266,667	8,533,334	5.29%
Chen Zheng	Beneficial owner	4,266,667	4,266,667	8,533,334	5.29%
Xu Qing, Catherine	Beneficial owner	–	320,000	320,000	0.20%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	3,333	2,133,333	1.32%
Kwong Che Keung, Gordon	Beneficial owner	–	1,706,667	1,706,667	1.06%

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

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

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

Save as disclosed above, as at 30 June 2007, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange as referred to in rule 5.46 of the GEM Listing Rules.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2007.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2007, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital of the Company as at 30.06.2007
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	656,790,023 (Note)	54.57%
Shougang Grand	Interests of controlled corporations	656,790,023 (Note)	54.57%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	656,360,023 (Note)	54.53%
Keywise Capital Management (HK) Limited	Investment manager	97,842,000	8.13%
Keywise Greater China Opportunities Master Fund	Beneficial owner	69,474,000	5.77%

Note: Upper Nice was an indirectly wholly-owned subsidiary of Shougang Grand which was held as to approximately 40.6% by Shougang Holding. The interest held by Upper Nice was included in the interests held by both of Shougang Grand and Shougang Holding.

Save as disclosed above, as at 30 June 2007, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

(a) Share options of the Company

On 18 July 2003, the Scheme which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was cancelled or lapsed in accordance with the terms of the Scheme during the six months ended 30 June 2007. Details of movement in the share options under the Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company				Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Granted during the period ^{1 & 2}	Exercised during the period ³	At the end of the period			
Directors of the Company							
Cao Zhong	8,008,200	-	-	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Chen Zheng	8,008,200	-	(8,008,200)	-	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Jin Guo Ping	8,008,200	-	-	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Xu Qing, Catherine	8,008,200	-	-	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Leung Shun Sang, Tony	8,008,200	-	(8,008,200)	-	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Kwong Che Keung, Gordon	800,820	-	-	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Bu Fan Xiao	800,820	-	-	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Hui Hung, Stephen	800,820	-	(800,820)	-	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	42,443,460	-	(16,817,220)	25,626,240			
Employees of the Group							
	14,200,000	-	(14,200,000)	-	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	-	3,000,000	(230,000)	2,770,000	22.03.2007	22.03.2007 – 21.03.2010	HK\$1.07
	-	2,890,000	(130,000)	2,760,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	14,200,000	5,890,000	(14,560,000)	5,530,000			
Other Participants							
	13,204,920	-	(10,003,280)	3,201,640	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	-	4,340,000	(1,389,000)	2,951,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	13,204,920	4,340,000	(11,392,280)	6,152,640			
	69,848,380	10,230,000	(42,769,500)	37,308,880			

SHARE OPTIONS *(Continued)*

(a) Share options of the Company *(Continued)*

Notes:

1. The closing prices of the shares of the Company immediately before 22 March 2007 and 4 April 2007, the dates on which the share options were granted, were HK\$1.06 per share and HK\$1.56 per share, respectively.
2. The fair values of the share options determined at the dates of grant using the Binomial Option Valuation pricing model were approximately HK\$1,734,000 and HK\$6,191,000, respectively. Details of the calculation of the fair values of the share options are set out in note 20 to the condensed consolidated financial statements.
3. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$1.71 per share.

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

On 19 September 2006, the GDC Tech Scheme was adopted by the shareholders of the Company and Shougang Grand. No share option was granted, exercised or cancelled in accordance with the terms of the GDC Tech Scheme during the six months ended 30 June 2007. Details of movement in the share options under the GDC Tech Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of GDC Tech			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Lapsed during the period	At the end of the period			
Directors of the Company						
Cao Zhong	4,266,667 ¹	-	4,266,667	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Chen Zheng	4,266,667 ¹	-	4,266,667	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Xu Qing, Catherine	320,000	-	320,000	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Leung Shun Sang, Tony	3,333 ¹	-	3,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Kwong Che Keung, Gordon	1,706,667 ¹	-	1,706,667	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	10,563,334	-	10,563,334			
Other individual with options granted in excess of limit						
Chong Man Nang	7,466,666 ¹	-	7,466,666	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Employees of the Group	5,193,332	(630,000) ²	4,563,332	05.10.2006	05.10.2006 – 04.10.2009	HK\$0.145
Other participants	1,173,333	-	1,173,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	24,396,665	(630,000)	23,766,665			

SHARE OPTIONS *(Continued)*

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

Notes:

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Cao Zhong	Shougang Grand <i>(Note 1)</i>	Cultural recreation content provision <i>(Note 2)</i>	Vice Chairman and Managing Director
Chen Zheng	Shougang Grand <i>(Note 1)</i>	Cultural recreation content provision <i>(Note 2)</i>	Managing Director of Operations
Leung Shun Sang, Tony	Shougang Grand <i>(Note 1)</i>	Cultural recreation content provision <i>(Note 2)</i>	Director

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(Continued)*

Notes:

1. *Shougang Grand indirectly held approximately 54.57% interests in the Company as at 30 June 2007.*
2. *Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.*

Save as disclosed above, during the six months ended 30 June 2007, none of the Directors or the management shareholders of the Company or any of its subsidiaries or any of their respective associates, had any interests in a business which competed or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2007 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 8 August 2007 for, amongst other things, reviewing the interim results of the Group for the period ended 30 June 2007.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules during the six months ended 30 June 2007.

COMPLIANCE WITH CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by directors throughout the six months ended 30 June 2007.

APPRECIATION

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

By Order of the Board

Cao Zhong

Chairman and Executive Director

Hong Kong, 13 August 2007