

first
quarterly
report
2004



Global Digital Creations Holdings Limited
環球數碼創意控股有限公司*
(Incorporated in Bermuda with limited liability)

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 report, 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 report.

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 of the Stock Exchange (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.

CONTENTS

Company Information	2
Financial Overview	4
Business Review	5
Other Information	8
Unaudited Consolidated Profit and Loss Account	17
Notes to Unaudited Consolidated Profit and Loss Account	18

COMPANY INFORMATION

Board of Directors

Executive Directors

Mr. Raymond Dennis Neoh

(Chief Executive Officer)

Mr. Richard Yin Yingneng (President)

Non-executive Directors

Mr. Anthony Francis Neoh (Chairman)

Dr. David Deng Wei (Vice Chairman)

Mr. Stephen Scharf

Independent Non-executive Directors

Mr. Gordon Kwong Che Keung

Professor Japhet Sebastian Law

Dato' Mohd Ibrahim bin Mohd Zain

Chief Technology Officer

Dr. Chong Man Nang

Chief Financial Officer & Qualified Accountant

Mr. Adrian Mak Yau Kee, *FCA FHKSA*

Compliance Officer

Mr. Raymond Dennis Neoh

Company Secretary

Ms. Amelia Mak Lai Yu

Mr. Ira Stuart Outerbridge III (Assistant Secretary)

Audit Committee

Mr. Gordon Kwong Che Keung (Chairman)

Professor Japhet Sebastian Law

Mr. Stephen Scharf

Remuneration Committee

Professor Japhet Sebastian Law (Chairman)

Dr. David Deng Wei

Website Address

<http://www.gdc-world.com>

Stock Code

8271.HK

Reuters:8271.F/8271.BE/8271.MU/8271.DE

(XETRA)

Bloomberg: GDC GR EQUITY

Head Office and Principal Place of Business in Hong Kong

Suites 1804-5, Hutchison House

10 Harcourt Road, Central,

Hong Kong

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Auditors

PricewaterhouseCoopers

Sponsor

Goldbond Capital (Asia) Limited

Legal Advisers

As to Hong Kong Laws

Gallant Y.T. Ho & Co.

As to Bermuda Laws

Conyers Dill & Pearman

Principal Bankers

Hang Seng Bank Limited

The Development Bank of Singapore Ltd.,

Standard Chartered Bank

Shenzhen Commercial Bank

Bank of China

Disclosure Policy Committee

Mr. Anthony Francis Neoh (Chairman)
Dr. David Deng Wei
Mr. Gordon Kwong Che Keung
Professor Japhet Sebastian Law
Mr. Stephen Scharf

Authorised Representatives

Mr. Raymond Dennis Neoh
Ms. Amelia Mak Lai Yu

Bermuda Resident Representative

Mr. John C. R. Collis

Bermuda Deputy Resident Representative

Mr. Anthony D. Whaley

Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar and Transfer Office

Standard Registrars Limited
Ground Floor, Bank of East Asia Harbour View
Centre
56 Gloucester Road
Wanchai, Hong Kong

FINANCIAL OVERVIEW

Turnover of the Group for the three months ended 31 March 2004 was approximately HK\$5,920,000 which, when compared with the turnover of the Group for the three months ended 31 March 2003 of approximately HK\$1,458,000, represented an increase of 306%. The increase in turnover was due to the sale of the Group's Digital Super Realism ("DSR™") range of digital cinema ("D-cinema") equipment, following the successful commercialisation of the products.

Turnover from the sale of digital cinema equipment totalled approximately HK\$4,602,000 for the period, which accounted for 77.8% of total revenue. Revenue from CG training and from digital cinema operations in the People's Republic of China ("PRC") totalled HK\$1,085,000 and HK\$233,000, representing 18.3% and 3.9% respectively of total revenue. The Group's movie project *Thru the Moebius Strip* (the "Film") has been completed, and the project is now in the marketing stage. So far, distributors of four small territories have entered into distribution contracts, providing minimum guarantees upon delivery of approximately USD400,000. Typically these contracts provide for a split of the net proceeds upon recovery of cost, including the minimum guarantee. These minimum guaranteed amounts fell toward the high end of the estimates provided by the sales agent, Senator International Inc. ("Senator"), and were entered into before the completion of the Film and when the distributors have only had the opportunity to watch a 12 minute trailer. It is anticipated that major distribution contracts will be negotiated at the Cannes Film Festival due to take place from 12 to 23 May 2004. No revenue was derived from CG content and production during the three months ended 31 March 2004 (the "First Quarter") but it is anticipated that cash from deposits for distribution contracts signed will begin to be received from June 2004 onwards.

Administrative expenses for the three months ended 31 March 2004 totalled approximately HK\$9,632,000 (2003: HK\$4,512,000). The increase was principally attributable to increase in managerial personnel costs, as the Group was strengthened by the additions of key executives, the rental and utility expenses arising from the commencement since July 2003 of the CG training and production facility in Chang Ning District, Shanghai, the PRC.

Other operating expenses, which comprised mainly of research and development costs for digital content distribution and exhibition, amounted to approximately HK\$1,009,000 for the three months ended 31 March 2004 (2003: HK\$646,000).

The total finance costs for the three months ended 31 March 2004 was approximately HK\$1,040,000 which, when compared with the finance costs for the same period in 2003 of HK\$1,464,000, represented a reduction of 29%.

Overall, the Group incurred a net loss of approximately HK\$10,645,000 for the three months ended 31 March 2004, which represented an increase of 90% over the loss of approximately HK\$5,593,000 incurred in the same period last year.

The costs of the making of the Film and the TV series *Panshel's World* continued to be capitalised and included under production work-in-progress in the balance sheet, in accordance with the Group's accounting policy on film costs and films under production. The total production costs incurred up to 31 March 2004 amounted to approximately HK\$85,615,000 (31 December 2003: HK\$75,666,000). Based on the view of the Directors, no impairment losses are considered necessary, as the future income from the products is sufficient to cover the costs.

BUSINESS REVIEW

Digital content distribution and exhibition

For the First Quarter of 2004, GDC Technology Ltd. ("GDC Technology") completed the installation of world's first 2K D-cinema multiplex in Eng Wah Organization's flagship five-screen multiplex theatre at Suntec City in Singapore. The five digital cinemas are the first of 20 D-cinemas and one outdoor screen that will be installed in Singapore by the end of the second quarter of 2004.

GDC Technology has successfully entered the PRC market with a sale of 11 units of D-cinema servers in the first quarter of 2004. The 11 units of servers were successfully installed with Barco and Christie Digital Systems' projectors in five metropolitan cities across the PRC. More than two digital movies were released in these D-cinema theatres.

GDC Technology has also successfully entered South Korea with the sales of two units of D-cinema server to major clients in South Korea – Megabox and Lotte cinemas.

GDC Technology has continued to be a key manufacturer of digital cinema equipment. At ShoWest 2004, GDC Technology's DSR™ Cineplex Central Server– GB1000 has been chosen to showcase the US\$100 Million Dollar Reel, a montage of clips paying tribute to the top-grossing movies of 2003. The DSR™ Cineplex Central Server – GB1000 is the ideal solution for D-cinema Multiplex that requires scheduling and playback from a central storage of slides, commercial clips, high definition ("HD") content, D-cinema movies to all the different screens. The DSR™ Cineplex Central Server offers real-time, simultaneous access of digital movies in a network storage environment, minimizing the storage cost and the time needed to transfer content from one standalone D-cinema server to the other, while maximizing the operational efficiency in a D-cinema Cineplex by having the freedom to real-time scheduling of any movie to any screen from a jukebox of movies. GDC Technology has also been invited to speak at World's eminent D-cinema conferences such as ShoWest 2004 *International Day Seminar* and NAB'04 *Digital Cinema Summits*.

On 3 February 2004, GDC Technology successfully delivered "*Tere Naam*" musical using satellite network of Essel Shyam Communication Limited (ESCL) in India. The event was India's first Satellite delivery of digital content to electronic cinema theatre in India featuring high-resolution images encoded in 4:2:2 colour space. The trial is significant because it demonstrates an efficient and cost-effective way to deliver content to the existing network of hundreds of electronic cinema theatres across India. GDC Technology also takes this opportunity to launch their latest multi-layer encryption DVB-IP delivery solution for digital/electronic cinema theatres.

CG content and production

Further to the reporting made in the annual report for the year ended 31 December 2003, the Directors are pleased to report that the final post-production work on *Thru the Moebius Strip* had been completed. During the First Quarter and April 2004, recording of the musical score of the Film performed by the Slovak Radio Symphony Orchestra and Slovak Philharmonic Chorus took place in Bratislava, Czechoslovakia under the supervision of Mr. Anthony Francis Neoh, producer, and Mr. Jason Magnus, music producer to the Film. Immediately thereafter, the final sound mix for the Film took place in Los Angeles, the United States ("US"). With the Film now in a final HD digital format, exhibition of the Film will take place at the Cannes Film Festival from 12 to 23 May 2004 in Cannes, France.

The Directors are also pleased to report that initial responses from a test group of audience following a test screening of the Film in the US were positive, reflecting a strong interest in the Film. As a result of a focus group discussion after the screening and research submitted by the Film's audience research firm, a large number of adjustments designed to improve the audience reception of the Film were made.

As reported in the annual report for 2003, the Group has appointed Senator as its international sales agent (excluding North America, Japan and the PRC). The Group is being advised by Senator on the pre-sale strategy. In early March 2004, pre-sale contracts for theatrical, DVD/video and TV exhibition rights in four territories were signed, following the marketing at the American Film Market exhibition. It is anticipated that the Group shall secure more pre-sale contracts after the Cannes Film Festival in May 2004. Screenings for potential US domestic distributors are underway, and it is hoped that a US domestic distribution contract will be concluded within the next quarter.

The Directors anticipate that the Film is ready for worldwide exhibition during late 2004 or early 2005. Distribution in the Chinese language in China mainland and Hong Kong is also being pursued with local distributors, and it is hoped that an agreement will be reached within the next quarter.

The Group has made further progress in the production of a 52-episode animated series of television programme titled *Panshel's World* during the First Quarter.

The Group is also discussing with various parties regarding potential fee for services contracts for television series and feature films.

CG training

During the period ended 31 March 2004, the Group's training courses continued to be operated in Shenzhen and Shanghai, with 155 students and 60 students respectively. These full time nine-month CG training courses will be completed in June 2004. In Shanghai, the Group has started to intake part-time and evening courses for a training scheme under the Shanghai Labour Department.

Prospect

With the first sales of 10 units of D-cinema server to China Film Group and one unit of D-cinema server to GuangDong Film Machine Factory, the Directors are optimistic about securing further sales of D-cinema equipment in the PRC in the coming quarters.

GDC Technology has also increased its marketing activities in US, Europe and part of Asia such as Thailand and Korea. It is anticipated that the Group shall secure more sales in these markets in the coming quarters.

GDC Technology has continued to develop new products for the digital content distribution and exhibition markets. It is anticipated to launch two new products in the second quarter of 2004. The Group's ability to push the technology envelope has positioned the Group well into the front of D-cinema server technology.

With the completion of the Group's first feature film, the Group has now demonstrated its ability to complete feature CG films of high quality. This has become an important calling card as a result of which various parties have engaged the Group in discussions about feature productions and television series. The Group's ability to produce CG animation features at relatively low cost represent a significant comparative advantage against its competitors in the US, while there is no competitor with comparable scale in the region.

OTHER INFORMATION

Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: nil).

Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations

As at 31 March 2004, so far as is known to the Directors, the beneficial interests (including interests and short positions in the shares of the Company ("Shares"), underlying Shares and debentures) of the Directors and chief executives in the shares or securities of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance Cap. 571 ("SFO")) which required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that Section, or required pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Approximate percentage of interest (%)
Mr. Anthony Francis Neoh	124,974,230	Beneficial owner	16.02
Mr. Raymond Dennis Neoh	275,137,713	Interest in controlled corporations <i>(note 1)</i>	35.27
Dr. David Deng Wei	20,779,090	Interest in a controlled corporation and beneficiary of a trust <i>(note 2)</i>	2.67
Mr. Richard Yin Yingneng	8,531,615	Beneficial owner	1.09
Mr. Gordon Kwong Che Keung	200,000	Beneficiary of a trust <i>(note 3)</i>	0.03
Professor Japhet Sebastian Law	200,000	Beneficiary of a trust <i>(note 4)</i>	0.03
Mr. Stephen Scharf	200,000	Beneficiary of a trust <i>(note 5)</i>	0.03

Notes:

1. The 214,122,516 of these Shares were held by Upflow Holdings Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability and wholly-owned by Mr. Raymond Dennis Neoh. The balance of the 61,015,197 shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.
2. The 20,579,090 of these Shares were held by Bright Oceans Corporation (HK) Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by Dr. David Deng Wei. The balance of the 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Dr. David Deng Wei.
3. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Gordon Kwong Che Keung.
4. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Professor Japhet Sebastian Law.
5. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Stephen Scharf.

Long positions in equity derivatives in, or in respect of, underlying Shares

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Mr. Anthony Francis Neoh	32,201,692 options granted under the FS Scheme <i>(note 6)</i>	32,201,692	Beneficial owner <i>(note 7)</i>	4.12
Mr. Raymond Dennis Neoh	4,818,450 options granted under the FS Scheme	4,818,450	Beneficial owner <i>(note 8)</i>	0.62
Mr. Richard Yin Yingneng	5,387,778 options granted under the FS Scheme	5,387,778	Beneficial owner <i>(note 9)</i>	0.69

Notes:

6. On 20 March 2003, the shareholders of Forward Strategic Investments Limited have by written resolution, adopted a share option scheme (the "FS Scheme") also dated 20 March 2003, wherein its board is entitled to grant options to grantees such that they can purchase Shares from Forward Strategic Investments Limited pursuant to the terms of the FS Scheme.
7. Mr. Anthony Francis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 32,201,692 Shares.
8. Mr. Raymond Dennis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 4,818,450 Shares.
9. Mr. Richard Yin Yingneng has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 5,387,778 Shares.

Short positions in equity derivatives in, or in respect of, underlying Shares

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Mr. Raymond Dennis Neoh	61,015,197 <i>(note 10)</i>	61,015,197	Interest in a controlled corporation <i>(note 10)</i>	7.82

Note:

10. Pursuant to the terms of the FS Scheme, the grantees may purchase 61,015,197 Shares according to its terms and conditions. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly-owned by Mr. Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

Save as disclosed above, as at 31 March 2004, none of the Directors and the chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHARE OPTIONS

Sotas option

On 5 June, 2003, the Company granted a share option to Sotas Limited which entitles Sotas Limited to acquire 8,331,615 Shares from the Company within 36 months from the date of listing of the Shares, at an aggregate exercise price of US\$600,000.

No share option granted to Sotas Limited was exercised up to 31 March 2004.

Share Option Scheme

The Company by shareholders' resolution passed at its special general meeting held on 18 July 2003, has adopted a share option scheme ("Scheme"). The principal purpose of the Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution to the Group.

As at 31 March 2004, no option has been granted or agreed to be granted under the Scheme.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, so far as is known to the Directors, the following, not being a Director or chief executive of the Company, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO:

Long positions in Shares and in equity derivatives in, or in respect of, underlying Shares

Name	No. of Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Sotas Limited	63,875,717	Beneficial owner <i>(note 1)</i>	8.19
Morningside CyberVentures Holdings Limited	63,875,717	Interest in a controlled corporation <i>(note 1)</i>	8.19
Verrall Limited	63,875,717	Interest in a controlled corporation <i>(note 1)</i>	8.19
Ms. Chan Tan Ching Fen	63,875,717	Founder of a trust <i>(note 1)</i>	8.19
Upflow Holdings Limited	275,137,713	Beneficial owner and interest in controlled corporation <i>(notes 2 & 3)</i>	35.27
Forward Strategic Investments Limited	61,015,197	Beneficial owner <i>(note 2)</i>	7.82
Global Digital Creations Limited	61,015,197	Interest in a controlled corporation <i>(note 2)</i>	7.82
Cyber Prime Developments Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
Billion On Development Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34

Name	No. of Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Festival Developments Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
Kingsway China Holdings Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
SW Kingsway Capital Holdings Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
World Developments Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
Innovation Assets Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
Kingsway International Holdings Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
Mr. Choi Koon Shum Jonathan	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.34
Ms. Kwan Wing Kum, Janice	41,658,077	Interest of spouse	5.34

Notes:

1. The 55,544,102 Shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly-owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly-owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Ms. Chan Tan Ching Fen, who was taken to be interested in the Shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the Shares on GEM. On 5 June 2003, the Company granted a share option to Sotas Limited which entitles Sotas Limited to subscribe for 8,331,615 Shares from the Company within 36 months from the listing of the Shares on GEM at an aggregate exercise price of US\$600,000 (equivalent to approximately HK\$4,680,000).
2. The 61,015,197 Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited which is wholly-owned by Mr. Raymond Dennis Neoh.
3. The 214,122,516 Shares were held by Upflow Holdings Limited, which is wholly-owned by Mr. Raymond Dennis Neoh.

4. The 41,658,077 Shares were held by Cyber Prime Developments Limited, a company incorporated in the BVI with limited liability, which is wholly-owned by Billion On Development Limited, which is in turn wholly-owned by Festival Developments Limited, which is in turn wholly-owned by Kingsway China Holdings Limited, which is in turn wholly-owned by SW Kingsway Capital Holdings Limited which is held as to 74% of its total issued share capital by World Developments Limited, which is in turn a wholly-owned subsidiary of Innovation Assets Limited, which is turn a wholly-owned subsidiary of Kingsway International Holdings Limited, which is held as to approximately 48% of its total issued share capital by Mr. Choi Koon Shum Jonathan (through himself and his controlled corporations). Ms. Kwan Wing Kum Janice is the spouse of Mr. Choi Koon Shum Jonathan.

Short positions in Shares and equity derivatives in, or in respect of, underlying Shares

Name	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Forward Strategic Investments Limited	61,015,197 <i>(note 5)</i>	61,015,197	Beneficial owner <i>(note 5)</i>	7.82
Global Digital Creations Limited	61,015,197 <i>(note 5)</i>	61,015,197	Interest in a controlled corporation <i>(note 5)</i>	7.82
Upflow Holdings Limited	61,015,197 <i>(note 5)</i>	61,015,197	Interest in a controlled corporation <i>(note 5)</i>	7.82

Notes:

5. Pursuant to the terms of the FS Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly-owned by Mr. Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed in the paragraphs headed "Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations" and "Interests discloseable under the SFO and substantial shareholders" above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares, underlying shares of the Company that is discloseable under the SFO.

SPONSOR'S INTERESTS

Pursuant to the agreement entered into between the Company and Goldbond Capital (Asia) Limited ("GCAL"), the sponsor of the Company, GCAL will act as the Company's continuing sponsor with effect from 4 August 2003 to 31 December 2005.

As at 31 March 2004, neither GCAL nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) have any interests in any class of securities of the Company or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.

Save as disclosed herein, there are no interests which the Sponsor, its directors and employees and their associates have in relation to the Group as at the date hereof.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at 31 March 2004, the Directors are not aware that (i) the Group has advanced any money to any entity which exceeded 8% under any of the percentage ratios; (ii) the Group has provided any financial assistance and guarantees to affiliated companies which exceeded 8% under any of the percentage ratios; (iii) the controlling shareholder of the Company has made any pledge over its shares to secure debts, guarantees or support of other obligation of the Group; (iv) the Group has entered into any loan agreements imposing specific performance obligations on any controlling shareholder and breach of such obligation will cause a default in respect of loans that are significant to the operations of the Company; and (v) the Group has breached the terms of any loan agreements that are significant to the operations of the Group such that the lender may demand immediate repayment and where the lender has not issued a waiver in respect of the breach. Hence the Directors are not aware of any circumstances which will give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants and in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are, inter-alia, to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. Members of the audit committee comprise Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law (independent non-executive directors), and Mr. Stephen Scharf (non-executive director). The Group's quarterly results for the three months ended 31 March 2004 have been reviewed by the audit committee, 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.

COMPETING INTEREST

Forward Strategic Investments Limited, a shareholder of the Company, has approximately 21.4% equity interest in a company named DCDC Limited (a BVI company), which in turn had a 100% equity interest in Digital Content Development Corporation Limited (a company incorporated in Hong Kong and abbreviated to "DCDC"). DCDC is principally engaged in CG production, in particular 3D animation in Hong Kong. Forward Strategic does not participate in the management of DCDC. It will remain a passive investor in DCDC and will not have a representative on the board of DCDC. There has not been and will not be any transactions between the Group and DCDC.

Save as the above, none of the Directors, chief executives, management shareholders or substantial shareholders (within the meaning of the GEM Listing Rules) of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period under review.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE THREE MONTHS ENDED 31 MARCH 2004

	Note	Three months ended 31 March	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	5,920	1,458
Cost of sales		(4,888)	(1,059)
Gross profit		1,032	399
Other revenue	2	4	–
Other operating income		–	630
Administrative expenses		(9,632)	(4,512)
Other operating expenses		(1,009)	(646)
Operating loss		(9,605)	(4,129)
Finance costs		(1,040)	(1,464)
Loss for the period		(10,645)	(5,593)
Loss per share	5		
Basic		HK1.36 cents	HK0.85 cents
Diluted		N/A	N/A

NOTES TO UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

1 Basis of preparation

The unaudited consolidated profit and loss account is extracted from the unaudited consolidated accounts of the Company. The unaudited consolidated accounts have been prepared in accordance with the principal accounting policies of the Group which conform with accounting principles generally accepted in Hong Kong.

The unaudited consolidated profit and loss account should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the unaudited consolidated profit and loss account are consistent with those used in the financial information as included in the annual accounts for the year ended 31 December 2003.

In preparing the unaudited consolidated accounts, the Directors have given careful consideration to the future liquidity of the Group which to a large extent depends on the timing of receipt of net proceeds from pre-sale contracts of the film *"Thru the Moebius Strip"* and the ability to refinance certain bank loans. In preparing the accounts on a going concern basis, the Directors believe that the Group should be able to obtain sufficient funding in the manner mentioned above as well as through other sources to continue operating as a going concern.

2 Turnover and revenues

The Group is principally engaged in computer graphics ("CG") creation and production, digital content distribution and exhibitions, and the provision of CG training courses. Revenues, net of business tax, recognised during the period are as follows:

	Three months ended	
	31 March	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Training fees	1,085	683
Sales of goods	4,602	702
Box office receipts from distribution of digital motion pictures	–	35
Rental income from equipment leasing	214	19
Franchise fee from digital cinema for use of equipment	19	19
	5,920	1,458
Other revenue		
Interest income	4	–
Total revenues	5,924	1,458

3 Taxation

No Hong Kong profits tax was provided for the period as the Group had no estimated assessable profits arising in or deriving from Hong Kong (2003: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The subsidiary of the Company operating in China mainland has been granted tax exemption from income tax for two years, starting from the first year of profitable operations after setting off accumulated losses brought forward, followed by a 50% reduction in income tax for the next three years. No income tax on the subsidiary was provided for the period as the subsidiary had no estimated assessable profit for the period (2003: the subsidiary was still under tax holiday during the period).

4 Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: Nil).

5 Loss per share

Basic loss per share for the three months ended 31 March 2004 is calculated based on the loss for the period of HK\$10,645,000 and on the weighted average number of 780,000,000 shares in issue during the period.

The comparative basic loss per share for the three months ended 31 March 2003 is calculated based on the loss for the period of HK\$5,593,000 and on an aggregate of 660,100,011 shares, comprising 10,000,000 shares issued on 7 November 2002, 30,000,000 shares issued upon a reorganisation and 620,100,011 shares issued pursuant to the capitalisation issue for the then shareholders upon completion of the reorganisation, which were deemed to have been in issue since 1 January 2003.

No diluted loss per share is presented for the three months ended 31 March 2004 because there was no dilutive potential ordinary shares in existence during the period. No diluted loss per share was presented for the three months ended 31 March 2003 as the conversion of convertible note was anti-dilutive.

6 Reserves

	Contributed surplus <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share issuance costs <i>HK\$'000</i>	Statutory reserve <i>(note)</i> <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	40,271	–	(4,465)	415	48	(31,242)	5,027
Share issuance costs	–	–	(4,981)	–	–	–	(4,981)
Loss for the period	–	–	–	–	–	(5,593)	(5,593)
At 31 March 2003	40,271	–	(9,446)	415	48	(36,835)	(5,547)
At 1 January 2004	40,271	84,299	–	538	48	(64,514)	60,642
Loss for the period	–	–	–	–	–	(10,645)	(10,645)
At 31 March 2004	40,271	84,299	–	538	48	(75,159)	49,997

Note: As stipulated by the rules and regulations in China mainland, foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. Subsidiaries of the Company established in the People's Republic of China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their share capital thereafter any further appropriation is optional and is determinable by the subsidiaries' board of directors. The statutory reserve as at 31 March 2004 represents general reserve fund of approximately HK\$538,000 (2003: HK\$415,000), which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital. The appropriation is made only at year end.

7 Subsequent events

- (i) On 27 April 2004, the Company entered into a loan agreement with Bright Oceans Corporation (HK) Limited ("Bright Oceans"), pursuant to which Bright Oceans agreed to lend in total RMB4,000,000 to the Group. Bright Oceans is a shareholder of the Company and 50% owned by Dr. David Deng Wei, a Director.

The Group had drawdown RMB4,000,000 under the loan agreement in April 2004. The loan is unsecured, bears interest at best lending rate as quoted by the Hongkong and Shanghai banking Corporation Limited from time to time plus 3% per annum and is repayable in full on 26 May 2004.

- (ii) On 3 May 2004, the Company entered into a placing and subscription agreement with Mr Anthony Francis Neoh, a Director, Kingsway Financial Services Group Limited, as placing agent, and Kingsway Capital Limited, as financial advisor, both related companies of the Company, for the placement of a maximum of 78,000,000 shares of the Company on a best efforts basis at the placing price of HK\$0.42 per share (the "Placing"). Under the Placing, 20,820,000 shares of the Company were placed, generating a net placing proceeds of approximately HK\$8,300,000.

On behalf of the Board
Raymond Dennis Neoh
 Executive Director and Chief Executive Officer

Hong Kong, 11 May 2004