



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

# 2005 THIRD QUARTERLY REPORT



THRU THE MCEBIUS STRIP

\* 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 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.*

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## Company Information

### Joint Chairmen

Mr. Anthony Francis Neoh  
(*Non-Executive Director*)  
Mr. Cao Zhong (*Executive Director*)

### Executive Director

Mr. Chen Zheng (*General Manager*)

### Non-executive Director

Dr. David Deng Wei (*Vice-chairman*)

### Independent non-executive Directors

Mr. Gordon Kwong Che Keung  
Professor Japhet Sebastian Law  
Mr. Bu Fan Xiao

### Alternate Director

Mr. Zhang Dong Sheng  
(to Dr. David Deng Wei)

### Chief Technology Officer

Dr. Chong Man Nang

### Chief Financial Officer & Qualified accountant

Ms. Cheung Kei Yim

### Compliance officer

Mr. Chen Zheng

### Company secretary

Mr. Tang Wing Fai  
Mr. Ira Stuart Outerbridge III  
(*Assistant Secretary*)

### Audit committee

Mr. Gordon Kwong Che Keung (*Chairman*)  
Mr. Anthony Francis Neoh  
Professor Japhet Sebastian Law

### Remuneration committee

Professor Japhet Sebastian Law (*Chairman*)  
Mr. Cao Zhong  
Dr. David Deng Wei

### Nomination committee

Mr. Bu Fan Xiao (*Convenor*)  
Mr. Gordon Kwong Che Keung  
Professor Japhet Sebastian Law

### Disclosure policy committee

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

### Authorised representatives

Mr. Cao Zhong  
Mr. Chen Zheng

### Bermuda resident representative

Mr. John C. R. Collis

### Bermuda deputy resident representative

Mr. Anthony D. Whaley

### Website address

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

### Stock code

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Wan Chai  
Hong Kong

**Registered office**

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2 Church Street  
Hamilton HM 11  
Bermuda

**Auditors**

Deloitte Touche Tohmatsu

**Sponsor**

Goldbond Capital (Asia) Limited

**Principal bankers**

Hang Seng Bank Limited  
The Development Bank of Singapore Limited  
Standard Chartered Bank  
Shenzhen Commercial Bank  
Bank of China

**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  
Wan Chai  
Hong Kong

The board of Directors (the "Board") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30 September 2005, together with the unaudited comparative figures for the corresponding periods in 2004, which are set out as follows:

## Unaudited Consolidated Income Statement

For the three months and the nine months ended 30 September 2005

	Note	Three months ended 30 September		Nine months ended 30 September	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (restated)
Turnover	3	8,185	1,896	18,505	17,187
Cost of sales		(8,774)	(1,729)	(20,709)	(13,794)
Allowance for production work in progress	4	(19,789)	–	(19,789)	–
Gross (loss)/profit		(20,378)	167	(21,993)	3,393
Rental expense written back		–	–	3,394	–
Other operating income		230	36	487	515
Distribution costs		(294)	(624)	(2,177)	(2,525)
Administrative expenses		(7,801)	(7,144)	(25,226)	(26,060)
Loss from operations		(28,243)	(7,565)	(45,515)	(24,677)
Finance costs		(2,315)	(1,410)	(5,758)	(3,592)
Loss before income tax		(30,558)	(8,975)	(51,273)	(28,269)
Taxation	5	–	–	(360)	–
Net loss for the period		(30,558)	(8,975)	(51,633)	(28,269)
Loss per share	7				
Basic		(3.82 cents)	(1.12 cents)	(6.45 cents)	(3.58 cents)
Diluted		N/A	N/A	N/A	N/A

## Notes to the Unaudited Consolidated Income Statement

For the three months and the nine months ended 30 September 2005

### 1. Basis of preparation

The unaudited consolidated financial results 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 "GEM Listing Rules").

The Group incurred net loss of approximately HK\$30,558,000 for the period ended 30 September 2005 and the Group had net current liabilities of approximately HK\$93,243,000 as at 30 September 2005. Notwithstanding, the directors are of opinion that the preparation of these financial results under going concern basis is appropriate due to the following considerations:

**(1) Other loan from SCG Finance Corporation Limited, a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("SCG")**

SCG is incorporated in Bermuda as an exempted company with limited liability with its shares listed on the Main Board of the Stock Exchange. SCG became the holding company of the Group in February 2005 and the directors are of the opinion that SCG will provide continuous financial support to the Group.

**(2) Loans from a director**

The loans advanced from a director of approximately HK\$20,700,000 remain a long-term liability of the Group.

## 2. Significant accounting policies

The unaudited consolidated financial results of the Group have been prepared under historical cost convention.

The accounting policies used in preparing the unaudited financial results for the nine months ended 30 September 2005 are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented except for the adoption of HKFRS 2 Share-based Payment.

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

As a result of this change in policy, the balance of accumulated losses at 1 January 2005 has been increased by HK\$891,000. The change has resulted in an increase in net loss for the current period of HK\$1,338,000 (2004: HK\$468,000).



### 3. Turnover

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on training fee, computer graphic ("CG") creation and production income, box office receipts from distribution of digital motion pictures, technical service income and other income during the period.

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of goods	4,006	636	9,784	13,636
Training fee	1,725	1,222	4,388	3,367
CG creation and production income	2,283	–	3,377	–
Box office receipts from distribution of digital motion pictures	–	–	–	24
Technical service income	144	–	663	–
Other income	27	38	293	160
	<b>8,185</b>	<b>1,896</b>	<b>18,505</b>	<b>17,187</b>

### 4. Allowance for production work in progress

The amount represents production costs incurred for the film titled "Thru the Moebius Strip" (the "Film"), a movie project the post production process of which has been completed at the end of September 2005 by the Group. Having regard to the fact that the Film has not yet been launched to the public and the uncertainty in finalising distribution/license agreements in the potential markets on a timely basis, the directors have made a further provision for possible loss of approximately HK\$19,789,000 (2004: Nil) during the period.

## 5. Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
The income tax expense comprises:				
Current tax	-	-	-	-
Deferred tax				
- Current period	-	-	360	-
	<u>-</u>	<u>-</u>	<u>360</u>	<u>-</u>
	<b>-</b>	<b>-</b>	<b>360</b>	<b>-</b>

No provision for Hong Kong Profits Tax has been made in the 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 for two years starting from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction of tax rate in the next three years.

## 6. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

## 7. Loss per share

The calculation of the basic loss per share for the three months and the nine months ended 30 September 2005 are based on the net loss for the period of approximately HK\$30,558,000 and HK\$51,633,000 respectively (2004: HK\$8,975,000 and HK\$28,269,000) and the weighted average of 800,820,000 shares (2004: 800,820,000 shares and 790,561,971 shares) in issue during the period.

No diluted loss per share has been calculated for the period ended 30 September 2005 as the exercise of the share options would result in a decrease in the loss per share. Diluted loss per share was not presented for the period ended 30 September 2004 because there was no potential ordinary shares in existence for that period.

## 8. Reserves

	Shares premium	Contributed surplus	Statutory reserve	Share option reserve	Special reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005								
as originally restated	92,438	40,271	680	-	-	34	(194,992)	(61,569)
Effect of changes in an accounting policy	-	-	-	891	-	-	(891)	-
As restated	92,438	40,271	680	891	-	34	(195,883)	(61,569)
Exchange differences on translation of overseas operations not recognised in the consolidated income statement	-	-	-	-	-	(22)	-	(22)
Transfer to statutory reserve	-	-	281	-	-	-	(281)	-
Employee share option benefits	-	-	-	1,338	-	-	-	1,338
Cancellation of share option (Note)	-	-	-	(2,229)	2,229	-	-	-
Net loss for the period	-	-	-	-	-	-	(51,633)	(51,633)
At 30 September 2005	92,438	40,271	961	-	2,229	12	(247,797)	(111,886)
At 1 January 2004	84,299	40,271	538	-	-	48	(64,514)	60,642
Employee share option benefits	-	-	-	468	-	-	-	468
Issue of shares by placing	8,536	-	-	-	-	-	-	8,536
Share issuance costs	(397)	-	-	-	-	-	-	(397)
Net loss for the period	-	-	-	-	-	-	(28,269)	(28,269)
At 30 September 2004	92,438	40,271	538	468	-	48	(92,783)	40,980

Note: Following the change of major Shareholding in February 2005, the holding company, SCG, issued an offer document in respect of a voluntary conditional cash offer to cancel all the outstanding options of the Company. In accordance with HKFRS 2, as the outstanding options has been cancelled during the vesting period, it should be accounted for as an acceleration of vesting and recognise the amount immediately over the remainder of the vesting period. Upon the cancellation of options, the share option reserve of approximately HK\$2,229,000 transferred to a special reserve.

## 9. Comparative figures

Certain Comparative figures have been reclassified to conform with current period's presentation.

## Financial Overview

Turnover of the Group for the three months and nine months ended 30 September 2005 were approximately HK\$8.2 million and HK\$18.5 million which, when compared with the turnover of approximately HK\$1.9 million and HK\$17.2 million for the three months and nine months ended 30 September 2004, represented an increase of approximately 332% and 8% respectively.

The significant increases in turnover for the three months ended 30 September as compared with the corresponding period of last year were mainly contributed by (1) a new source of income generated from OEM CG creation and production; (2) the increase in sales of goods by 567% and training fee income by 41% respectively.

Upon completion of the post production process of the Film during the period under review, the Group has re-deployed its resources to OEM CG creation and production. Such business generated a new source of income to the Group .

During the three months ended 30 September 2005, revenues from OEM CG creation and productions and training fee continues to increase.

Sales of goods for the three months and nine months ended 30 September 2005 were approximately HK\$4 million and HK\$9.8 million which, when compared with the turnover of approximately HK\$0.6 million and 13.6 million for the three months and nine months ended 30 September 2004, represented an increase of approximately 567% and a decrease of 28% respectively.

The sales of goods for the three months had increased as compared with the corresponding period of last year. The increment was resulted from the increase in the orders of digital cinema equipment, DSR™ EN1000 Digital Mastering Systems. Even though there was a good sales performance in the third quarter, the total amount of sales of goods for the nine months ended 30 September 2005 had decreased as compared with the corresponding period of last year. This was mainly due to the disappointing sales performance in the first and second quarters of 2005. The poor sale performance in the first half year of 2005 was mainly due to the unfavourable business environment generated from market uncertainty. Many our potential customers concerned the finalization of digital cinema specifications from Digital Cinema Initiative (“DCI”) and the upgradeability/compatibility of the existing GDC Servers with these standards, they had adopted a “wait and see” approach, particularly waiting for Hollywood where an imminent roll out is expected towards end of the year. The several funding/seeding initiatives by our competitors such as Avica, Christie/AIX, Dolby, EVS/XDC and Real Image have also an impact on our sales efforts.

Although the total amount of sales of goods for the nine months ended 30 September 2005 has decreased as compared with the corresponding period in 2004, income generated from CG creation and production and the increase in contribution from training fee income have fully compensated and offset the impact on the decrease in sales of digital cinema equipment.

Distribution costs and administrative expenses for the nine months ended 30 September 2005 totaled approximately HK\$2.2 million (2004: HK\$2.5 million) and HK\$25.2 million (2004: HK\$26 million) respectively, represented a decrease of approximately 12% and 3% respectively. The decrease in the distribution cost and administrative expenses were attributable to the improvement in cost control by the Group.

Finance costs for the nine months ended 30 September 2005 totaled HK\$5.8 million, which represented mainly the interest costs for the two bank loans denominated in Renminbi, finance costs for computer equipment leasing and interest cost for loans from a fellow subsidiary, SCG Finance Corporation Limited ("SCG Finance") (2004: HK\$3.6 million). The increase in finance costs was mainly due to the loans raised from SCG Finance since November 2004.

Overall, during the period under review, a provision of approximately HK\$19.8 million was made for the Group's production work in progress for the Film although its post production process has been completed at the end of September 2005. Having regard to the fact that the Film has not yet been launched to the public and the uncertainty in finalising distribution/license agreements in the potential markets on a timely basis, the directors have made a further provision for possible loss of approximately HK\$19.8 million. Furthermore, following the adoption of the new HKFRS 2 "Share-based Payment" which required the Company to recognize the share option expense of approximately HK\$1.3 million to the income statement. By excluding the allowance for production work in progress of approximately HK\$19.8 million and the share option expenses of approximately HK\$1.3 million, the Group has incurred a net loss of approximately HK\$30.5 million for the nine months ended 30 September, as compared with the net loss of approximately HK\$28.3 million for the same period of last year.

## Business Review

### CG creation and production

The Group's film "Thru the Moebius Strip" has been delivered, including the film and electronic formats required for theatrical, television and digital cinema release. Between 3 and 9 November 2005, the film will be screened at American Film Market. Over 200 buyers have been confirmed to attend the screening at AFM in Los Angeles. A French buyer has shown strong interest to the Film and is in serious discussion with the Group about the distribution of the film in France. On 14 October 2005, the film was nominated for the best art film for Gold Rooster Award in China, the well-known film award in China. The awarding ceremony will be held in Sanya, Hainan on 12 November 2005. This good news will boost market promotion for release of the film in China next year. Meanwhile, the Group's production for service has been fruitful and has brought income to the group. Clients from the US and Europe are very satisfied with the quality work delivered to the clients on time. More clients have been attracted to the Group's production studio. The production of one TV series has been planned until March of 2007. Clients from other countries, such as Japan, have also started to show their interest in the Groups' production service or as co-production partners. One computer game company has started business with the Group. Two other games companies are in discussion. The Group has signed sales agent agreement with a Japanese company which will promote the Group in Japan and bring more business opportunities to the Group. Local clients of commercial and short films have also added revenue to the Group. In September 2005, the Group has been chosen by Beijing Children's Theatre Ltd as one its partners for its project of animated text plays. This is a big project supported by the Central Chinese government. The Group has started production of trailers for this project, which will bring in securely 500 minutes of animation job for the Group's studio. The TV series for local well-known company has been planned for pre-production in early 2006. Another TV series for a well-known game company is under planning. One of the Group's new creations has been chosen by a fund for promoting Chinese culture for one of its series of animation projects for overseas Chinese communities. It is estimated that the production will be scheduled for 2006. Support from local government has also been very fruitful. Local government has expressed its wish to sponsor and support the release of the film "Thru the Moebius Strip" in China.

### Digital content distribution and exhibition

For the three months ended 30 September of 2005, GDC Technology Group achieved a turnover of approximately HK\$4.2 million, which, when compared with the turnover of the Group for the three months ended 30 September 2004 of approximately HK\$0.7 million, represented an increase of approximately 500%. The increase in turnover was due to the increase in the order of DSR™ EN1000 Digital Mastering Systems.

As part of the marketing plan, GDC Technology participated at the Beijing International Radio, TV & Film Equipment Exhibition (“BIRTV”), an international exhibition held in Beijing, China, in August 2005. GDC Technology unveiled DSR™ SDM4000 Display Maestro which offers a solution for lively and dynamic digital signage for advertising and publicity. Flat screen color displays are used to deliver still or moving images and messages to viewers in and outside atriums and lobbies. DSR™ SDM4000 Display Maestro promises more interesting and compelling presentation and promotional information. The contents may be displayed on designated or on all screens simultaneously. They may also be networked together to provide synchronized playback of the images, forming a large Video Wall.

GDC Technology also showcased DSR™ SA4000 4K Digital Film Server at BIRTV with Sony SXR4000 4K projector. A wide range of contents such as the Standard Evaluation Material from DCI (StEM), clips from “Ke Ke Xi Li” (a Chinese feature) and Sony Picture’s “Spiderman II” were presented in 4K picture resolution at BIRTV. Prior to BIRTV, several demonstrations had taken place around Asia which includes Beijing, Hong Kong, Seoul, Shanghai, Taipei and Singapore.

GDC Technology demonstrated 3D capabilities of its digital film servers in Beijing with the Beijing Film College. It was held at the Beijing Film Academy Digital Film Research Lab on 27 August 2005. The 3D demonstration featured approximately 5 minutes of footages captured using 2 high definition cameras. They included a montage of images of sculpture, scenery, human figure and Beijing opera. The 3D demonstration was achieved using GDC Technology DSR™ Digital Film Servers and two projectors. The demonstration clip was projected onto the silver screen while the audience used less cost “passive” polarized spectacles.

GDC Technology introduced DCI MXF upgrade to its DSR™ SA1000 Digital Film Servers and DSR™ EN1000 Digital Mastering System during the Third Quarter of 2005. Most of the existing field installed DSR™ SA1000 Digital Film Servers were upgraded to support DCI MXF format; the digital screenings of Hollywood feature films in various countries were successful with the newly introduced DCI MXF format. GDC Technology leads in the industry by being the first to upgrade servers deployed in the field to DCI MXF.

### CG training

The Group's training activities in China continue to attract talented artists and the attractive cost structure of the Group's computer animation studio combined with the quality of its work will form a formidable platform for a partnership with international strategic partners.

The Group continued to record revenue from the CG training course in Shenzhen and Shanghai, the PRC which are operating in co-operation with Shenzhen University and University of Shanghai for Science and Technology respectively. Turnover from CG training increased by approximately 30% for the nine months ended 30 September 2005, represented approximately 24% of the Group's turnover during the period under review. The increase was mainly attributable to the expansion of the Group's CG training centers in Shanghai and Shenzhen in terms of the number of the students served and courses offered during the period review.

By 30 September 2005, the training center in Shenzhen already run 6 training courses. 120 students started their study in the 6th CG training course in Shenzhen. Shanghai training center had held 7 courses so far. The 4th CG course was successfully finished in 9 August 2005.



## Outlook

### CG creation and production

With the delivery of Group's film "Thru the Moebius Strip", worldwide distribution and sales are in full swing. During AFM in Los Angeles on 3 November 2005, the first screening of the film has attracted over 200 buyers. A French buyer has shown strong interest to the film and is in serious discussion with the Group about the distribution of the film in France. The film has been scheduled to be released in signed territories in the year 2006. On 14 October 2005, the film was nominated for the best art film for Gold Rooster Award in China, the well-known film award in China. The awarding ceremony will be held in Sanya, Hainan on 12 November 2005. This good news will boost in market promotion for release of the film in China next year. After the screening of the Film in Los Angeles in August, quite a few major studios and producers from all over the world contacted GDC for business discussion of production service and co-production of DG animated features and TV series. One major DVD package (US\$460,000) have been signed and in production. Another 26-episode TV series (US\$1.2 million) will be signed in and will in production in the near future. Two features and one TV series are under serious discussion for production service in the next two years. The production of one TV series has been planned until March of 2007. Computer game companies from Europe and Japan have also signed contracts with GDC for production services. One Japanese computer game company will sign a 3-year contract with Group production of game project. Under this contract, the game company will provide certain amount of work to the Group's production studio every month. All the terms of the contract have been discussed. The contract is in the process of being signed by both sides. The Group has signed sales agent agreement with a Japanese company which will help the Group expand market in Japan. The quality work and professional services provided by the Group has secured clients and jobs for the future. Revenues generated through the Group's production for service will be significantly increased when more projects are brought in 2006 which will also be the year for the Group to expand its market in China. The Group has been chosen by Beijing Children's Theatre Ltd as one its partners for its project of animated text plays, a project supported by the Central Chinese government. The Group has planned to organize its resources to produce at least 500 minutes of animation for this project in 2006 and 2007. Various TV series for local market are in development. The Group will present these creations to investors in pre-sales. With these creations, the Group can also benefit from policies released by local government to support culture related industry, including animation, the Group's major business.

### Digital content distribution and exhibitions

From the recent publications of digital cinema activities from mainstream magazines, the industry believes that the digital cinema roll out will likely to take place in the first quarter of 2006. There are also emerging companies to play the third-party role in digital cinema business model and these players facilitate the roll out of digital cinema theatres similar to the Company's digital cinema franchise business model as disclosed in the prospectus of the Company dated 23 July 2003 (the "Prospectus"). The business model is now being supported by major Hollywood studios for the first time; at least two Hollywood studios had entered into groundbreaking non-exclusive agreement with the third-party company to supply their feature films in digital format and to pay virtual print fees to the third-party company.

With the DCI digital cinema specifications being announced in July 2005, GDC Technology requires to expedite its product research and development in order to upgrade its existing digital cinema product lines to meet DCI specifications. GDC Technology might be marginalized, if substantial capital raised is not available for research and business development.

### CG Training

As the world's fast growing Animation market, China needs talented artists and skillful production engineers, demand for whom are continually increasing. Although the competition has become more intensive, since many animation production firms have entered the CG training market, the competitive advantage of GDC is still significant.

Currently the CG training is mainly provided in Shenzhen and Shanghai. But to increase revenue in a short period of time, the company is planning to extend its presence in several other cities. According to the plan, the company will work with selected partners and set up several authorized training centres by the end of 2005.

To secure our leading position on CG training, the company is working on developing more training courses. With the expansion on geographic coverage and more attractive high quality training courses offered, the Directors are confident it will achieve major increase on turnover from CG training.

## Other Information

### Directors' and Chief Executive's Interests or Short Positions in the Shares, Underlying Shares or Debentures

As at 30 September 2005, none of the directors and the chief executive of the Company nor their associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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.

### Substantial shareholders

As at 30 September 2005, so far as is known to the Directors, the following, not being a Director or chief executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO:

#### *Long positions in Shares*

<b>Name of Shareholder</b>	<b>Number of Shares held</b>	<b>Capacity</b>	<b>Approximate percentage of existing shareholding</b>
Shougang Holding (Hong Kong) Limited	658,466,023 (Note 1)	Interest in controlled corporation	82.22%
Shougang Concord Grand (Group) Limited	658,466,023 (Note 1)	Interest in controlled corporation	82.22%
Upper Nice Assets Ltd.	658,466,023 (Note 1)	Beneficial interest	82.22%
Sotas Limited	55,544,102 (Note 2)	Beneficial interest	6.94%
Morningside CyberVentures	55,544,102 (Note 2)	Interest in controlled corporation	6.94%
Verrall Limited	55,544,102 (Note 2)	Interest in controlled corporation	6.94%
Mrs. Chan Tan Ching Fen	55,544,102 (Note 2)	Founder of a trust	6.94%

Notes:

1. Upper Nice Assets Ltd. is an indirectly wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("SCG") which is regarded to be held as to approximately 41% by Shougang Holding (Hong Kong) Limited as recorded under the register of SCG kept under Section 336 of the SFO. The interests held by Upper Nice Assets Ltd. are included in the interests held by both of SCG and Shougang Holding (Hong Kong) Limited.

A total of 58,000,000 shares of the Company were placed out by Upper Nice Assets Ltd. (the "Placing") in September 2005. Following the completion of the Placing, the shareholding of Upper Nice Assets Ltd. in the Company is diluted from approximately 82.22% to approximately 74.98% issued share capital of the Company. Meanwhile, Upper Nice Assets Ltd. (as the grantor) and Shougang Concord Grand (Group) Limited ("Shougang") (as the guarantor) granted the Put Options (as defined in the joint announcement of the Company and Shougang dated 25 August 2005) and whereby Upper Nice Assets Ltd. is obliged to purchase 58,000,000 shares of the Company, representing approximately 7.24% issued share capital of the Company at the exercise price of HK\$0.22 per share.

2. 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 in turn a wholly-owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Mrs. 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.

Save as disclosed above, as at 30 September 2005, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

### **Directors' Rights to Acquire Shares or Debentures**

Except for the share option scheme disclosed below, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Share Options

### Sotas Options

On 5 June 2003, the Company granted a share option to Sotas Limited which entitled Sotas Limited to acquire 8,331,615 Shares from the Company within 36 months from 4 August 2003, the date of listing of the shares of the Company (the "Listing"), at an aggregate exercise price of US\$600,000.

As at 30 September 2005, the share option to Sotas Limited had been cancelled.

### 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 contributions to the Group.

The following table sets out the movements in the Company's share options during the period:

Name of Director	Date of grant	Exercise price HK\$	Number of share options				Balance as at 30 September 2005
			Balance as at 1 January 2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	
Dr. David Deng Wei	21.6.2004	0.44	8,000,000	-	-	8,000,000	-
Mr. Gordon Kwong Che Keung	21.6.2004	0.44	2,100,000	-	-	2,100,000	-
Professor Japhet Sebastian Law	21.6.2004	0.44	2,100,000	-	-	2,100,000	-
Mr. Stephen Scharf	21.6.2004	0.44	2,100,000	-	-	2,100,000	-
Total			14,300,000	-	-	14,300,000	-

Note: 14,300,000 share options could be exercised at any time during the period from 21 June 2004 to 20 June 2014. As at 30 September 2005, all of them had been cancelled.

### Competing Interests

As at 30 September 2005, the interests of the Directors in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Company) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Company were as follows:

<b>Name of Director</b>	<b>Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Company</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Company</b>	<b>Nature of interest of the Director in the entity</b>
Cao Zhong	Shougang Concord Grand (Group) Limited ("SCG") <i>(Note 1)</i>	Property investment and management, financial services and cultural recreation content provision <i>(Note 2)</i>	Vice-chairman
Chen Zheng	Shougang Concord Grand (Group) Limited ("SCG") <i>(Note 1)</i>	Property investment and management, financial services and cultural recreation content provision <i>(Note 2)</i>	Executive director

*Note 1:* SCG through Upper Nice Assets Ltd. indirectly holds approximately 82.22% (including underlying shares) interests in the Company.

*Note 2:* Those businesses are carried out through its subsidiaries or associates or by way of other form of investments.

### **Sponsor's Interests**

Pursuant to an agreement dated 23 July 2003 entered into between the Company and Asia Investment Capital Limited (now known as Goldbond Capital (Asia) Limited), Goldbond Capital (Asia) Limited acts as the Company's continuing sponsor until 31 December 2005.

As at 30 September 2005, neither Goldbond Capital (Asia) Limited nor its directors, employees or associates (as referred to under note 3 to Rule 6.35 of the GEM Listing Rules) have any interests in any class of securities of the Company or any other members of the Group, 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.

### **Purchase, Sale or Redemption of Listed Securities of the Company**

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

### **Code of Conduct Regarding Securities Transactions by Directors**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions adopted by the Company during the nine months ended 30 September 2005.

### Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report, interim reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee comprises Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law (independent non-executive Directors), and Mr. Anthony Francis Neoh (Joint Chairman and non-executive Director).

The Group's unaudited consolidated results for the nine months ended 30 September 2005 have been reviewed by the audit committee of the Company, which is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures have been made.

By Order of the Board

**Chen Zheng**

*Executive Director*

Hong Kong, 11 November 2005

*As at the date of this report, the Board comprised Mr. Anthony Francis Neoh (Joint Chairman and non-executive Director) and Mr. Cao Zhong (Joint Chairman and executive Director); Dr. David Deng Wei (Vice-chairman and non-executive Director) and Mr. Chen Zheng (General Manager and executive Director); Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Bu Fan Xiao (Independent non-executive Directors).*