



Global Digital Contents Holdings Limited

全球數碼內容有限公司

Global Digital Contents Holdings Limited
COCOA HOLIDAYS

First Quarterly Report 2006

* For identification purpose only

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.

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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 (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

Board of Directors

Non-executive Director:

Mr. Cao Zhong (Chairman)
Mr. Leung Shun Sang, Tony
Dr. David Deng Wei (Vice-Chairman)

Executive Directors:

Mr. Chen Zheng (Chief Executive Officer)
Mr. Jin Guo Ping (Vice President)
Dr. Catherine Xu Qing (Vice President)

Independent non-executive Directors:

Mr. Gordon Kwong Che Keung
Mr. Bu Fan Xiao
Mr. Stephen Hui Hung

Chief Financial Officer & Qualified Accountant

Mr. Tsang Yu Tit

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. Bu Fan Xiao
Mr. Stephen Hui Hung

Remuneration Committee

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

Nomination Committee

Mr. Bu Fan Xiao (Chairman)
Mr. Gordon Kwong Che Keung
Mr. Stephen Hui Hung

Authorised Representatives

Mr. Chen Zheng
Dr. Catherine Xu Qing

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

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

6/F., Bank of East Asia Harbour
View Centre
56 Gloucester Road
Wanchai, Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Auditors

Deloitte Touche Tohmatsu

Legal Advisers

As to Hong Kong Laws
Sidley Austin Brown & Wood

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

Standard Registrars Limited
Level 25, Three Pacific Place
1 Queen's Road East
Hong Kong

The board of Directors (the “Board”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2006, together with the unaudited comparative figures for the corresponding period in 2005, which are set out as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2006

		Three months ended 31 March	
	Notes	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue	2	8,641	5,750
Cost of sales		<u>(5,074)</u>	<u>(3,368)</u>
Gross profit		3,567	2,382
Rental expense written back		—	3,394
Other income		185	17
Distribution costs		(2,326)	(1,090)
Administrative expenses		(8,897)	(10,120)
Finance costs	3	<u>(2,768)</u>	<u>(1,620)</u>
Loss before taxation and loss for the period		<u>(10,239)</u>	<u>(7,037)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	6		
Basic		<u>(1.28)</u>	<u>(0.88)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

NOTES TO UNAUDITED FINANCIAL STATEMENTS

For the three months ended 31 March 2006

1. Basis of preparation

The unaudited consolidated results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies used in preparing the unaudited consolidated results for the three months ended 31 March 2006 are consistent with those used in the Group's audited financial statements for the year ended 31 December 2005.

The Group incurred loss of approximately HK\$10,239,000 for the three months ended 31 March 2006 and the Group had net current liabilities of approximately HK\$140,926,000 and net liabilities of approximately HK\$138,451,000 as at 31 March 2006. Notwithstanding, the Directors are of the opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(1) Availability of facilities

The amount available to the Group for borrowings under the facilities granted by SCG Finance Corporation Limited ("SCG Finance"), a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("SCG"), the holding company of the Group incorporated in Bermuda as an exempted company with limited liability and with its securities listed on the Stock Exchange, at 31 March 2006 is HK\$100,000,000 and is available up to 31 December 2006, in which approximately HK\$68,719,000 is utilised as at 31 March 2006.

The Directors are of the opinion that SCG Finance would further extend the repayment date of the loan such that the repayment would not have a material adverse effect on the operations of the Group.

(2) Financial support

SCG and a controlling shareholder of SCG, Shougang Holding (Hong Kong) Limited, have committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue the Group's operations for a period of twelve months from 20 April 2006, the day of the Group's annual report for the year 2005. The Directors are of the opinion that SCG and/or Shougang Holding (Hong Kong) Limited will provide continuous support to the Group after then.

2. 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, distribution of digital motion pictures and franchise fee and rental income from equipment leasing during the period. An analysis of the Group’s revenue is as follows:

	Three months ended 31 March	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
CG creation and production income	3,701	51
Sales of goods	2,746	3,808
Training fee	1,926	1,526
Technical service income	149	—
Rental income from equipment leasing	119	346
Franchise fee from digital cinema for use of equipment	—	19
	8,641	5,750

3. Finance Costs

	Three months ended 31 March	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on:		
Loan from a fellow subsidiary	1,635	59
Loans from related parties	586	226
Bank borrowings wholly repayable within five years	432	562
Finance leases	114	159
Loans from shareholders	—	420
Others	1	194
	2,768	1,620

4. Income Tax

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.

5. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

6. Loss per share

The calculation of the basic loss per share is based on the loss attributable to the ordinary equity holders of the Company for the period of approximately HK\$10,239,000 (2005: HK\$7,037,000) and the 800,820,000 shares (2005: 800,820,000 shares) in issue during the period.

Diluted loss per share was not presented for the three months ended 31 March 2006 because there was no potential ordinary shares in existence for the period. No diluted loss per share has been calculated for the three months ended 31 March 2005 as the exercise of the share options could result in a decrease in the loss per share.

7. Reserves

	Share premium account (Unaudited) HK\$'000	Capital contribution reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2006	92,438	445	40,271	680	(44)	(270,010)	(136,220)
Loss for the period	—	—	—	—	—	(10,239)	(10,239)
At 31 March 2006	92,438	445	40,271	680	(44)	(280,249)	(146,459)
At 1 January 2005	92,438	—	40,271	680	34	(194,992)	(61,569)
Exchange differences on translation of operations outside Hong Kong recognised directly in equity	—	—	—	—	64	—	64
Loss for the period	—	—	—	—	—	(7,037)	(7,037)
At 31 March 2005	92,438	—	40,271	680	98	(202,029)	(68,542)

8. Comparative figure

Certain comparative figures have been re-classified to conform with current period's presentation.

FINANCIAL OVERVIEW

Revenue of the Group for the three months ended 31 March 2006 amounted to approximately HK\$8,641,000 which, comparing with the revenue of approximately HK\$5,750,000 for the three months ended 31 March 2005, represented an increase of approximately 50%. Sales of digital cinema equipment decreased as orders from customers were in the process of negotiation. The Group's revenue from CG creation and production increased from nearly zero to approximately HK\$3,701,000, comparing with the corresponding period in the year 2005, as a result of that the Group had entered into the business of contractor of CG creation and production since the second half of the year 2005. Training fee income also increased for about 26% mainly due to the increase in both number of course provided and average number of student attending each course. As increase in revenue of CG creation and production and training fee has outweighed the decrease in sales of digital cinema equipment, revenue increased in aggregate.

The Group made a gross profit of approximately HK\$3,567,000 for the three months ended 31 March 2006 (2005: HK\$2,382,000), representing a gross profit margin of approximately 41% (2005: 41%), approximated to that of the corresponding period in the year 2005.

Rental expense written back during the corresponding period in the year 2005 was rental of premises occupied by the Group paid by the Shanghai Government as a form of support to the Group which is engaged in a business encouraged by the government. No support in such form was received during the period under review.

Distribution costs for the three months ended 31 March 2006 amounted to approximately HK\$2,326,000 (2005: HK\$1,090,000). The increase in the distribution costs was mainly due to costs were incurred during the period under review for the promotion of the movie "Thru the Moebius Strip" which is scheduled to be released in the summer of 2006.

Administrative expenses for the three months ended 31 March 2006 amounted to approximately HK\$8,897,000 (2005: HK\$10,120,000), represented a decrease of approximately 12%. The decrease in the administrative expenses was attributable to saving of the expenses related to restructuring in the corresponding period in the year 2005.

Finance costs for the three months ended 31 March 2006 amounted to approximately HK\$2,768,000, which represented mainly the interest costs for the two bank loans denominated in Renminbi, finance costs for computer equipment leasing and interest cost for loan from SCG Finance (2005: HK\$1,620,000). The increase in finance costs was mainly due to that outstanding balance of loan from SCG Finance and bank and other borrowings increased to finance the Group's loss incurred and the Group's development.

Overall, the Group incurred loss of approximately HK\$10,239,000 for the three months ended 31 March 2006. Adjusted for the non-incurring income of rental expense written back amounted to approximately HK\$3,394,000, adjusted loss for the corresponding period in the year 2005 amounted to approximately HK\$10,431,000. Loss for the three months ended 31 March 2006 represented an improvement of approximately 2% compared with the adjusted loss incurred in the corresponding period in the year 2005.

BUSINESS REVIEW

CG Creation and Production

The theatrical release of the Group's film "Thru the Moebius Strip" in China has been set for this summer. Chinese dubbing and Chinese subtitle for the film has been in production and is due to be completed before the scheduled release. Promotional campaign for the scheduled release of the film has started.

As bi-products of the film, the Group has signed the contract with a prestige publisher to publish the "Making of" and comic books of the film. Both books are expected to be on shelf in bookstores before the film is released in summer of 2006.

The "Making of Moebius Film" documentary program about the film has also been completed in production. It is arranged to be shown on major PRC television stations before the film is released.

Two of the Group's short films "Home" and "Peach Blossom Garden" won "Handsome Monkey" Award, the most prestigious award for animation in China.

After the completion of the film, the Group has been providing production services to major CG projects from the US, among which some series are being aired on major US networks. The production has been going very smoothly and expected to be delivered according to the schedule. In addition, a co-production project of high definition television series with an American partner is also in production. Some of the episodes have been completed and delivered on time.

Digital Content Distribution and Exhibition

The decrease in sales of digital cinema equipment was due to the lack of a server fully complying with the technical standard issued by Digital Cinema Initiative, LLC. ("DCI", a joint venture formed by major Hollywood distributors and the standard issued by whom is considered the commonly accepted industry standard) and the increase in competition in the digital-cinema ("DC") and electronic-cinema ("EC") markets.

In the first quarter of 2006, GDC Technology, the Group's subsidiary specialised in digital cinema equipment, added new EN1000 DSR™ Digital Mastering System installations. DSR™ Digital Mastering System EN1000 prepares content for digital cinema and was the first encoder to be upgraded to support the DCI adopted MXF packaging format in May 2005. Over 200 full-length feature films, numerous advertisements and alternative contents have been prepared at mastering sites worldwide in the PRC, other parts in Asia, Europe and the US using DSR™ Digital Mastering System EN1000. With the transition towards JPEG2000 as recommended in DCI specifications document released in July 2005, GDC Technology plans to provide JPEG2000 upgrade option for existing encoders by the second quarter of 2006. At the same time, the new generation DSR™ Digital Mastering System EN2000, with JPEG2000 codec will be available. As a safeguard to customers' investment, the encoder also maintains backward compatibility with the widely adopted packaging format. GDC Technology's DSR™ Digital Mastering System EN1000 and EN2000 are a software-based encoder for DC, high definition television contents, screen advertising and pre-show entertainment applications. Built on the robust LINUX operating system, the software design provides features such as multiple codecs and content packaging formats, key delivery management and encryption scheme.

GDC Technology continues to market its products through participation in trade exhibitions and high profile demonstration projects. In this year's ShoWest convention, GDC Technology demonstrated its new products — DSR™ Network Operations Center (NOC) software, DSR™ Display Maestro and DSR™ digital signage solutions. DSR™ NOC will be an important tool in helping customers for the eventual deployment of DC in their exhibition chain, managing different servers and screens in different multiplexes from one remote location. With the NOC, operators can deliver content and information, create show playlists and schedules, monitor playback and perform remote diagnostics and upgrades on the servers over the Internet or a private network.

The Group envisages the rate of conversion of public area display systems used for out-of-home advertisement to digital systems, to accelerate in 2006. The Group has developed digital signage solutions that include DSR™ Display Maestro server designed specifically for the potential growth in the digital signage market. We expect the new products such as DSR™ NOC and DSR™ Display Maestro to contribute to our revenue starting from the next quarter.

CG Training

The Group's CG training business in China continues to maintain high growth. With expanded presence in the regions beside Shanghai and Shenzhen, and more courses offered to CG professionals, both the number of the students trained and the revenue from the training activity dramatically increased during the period under review.

OUTLOOK

CG Creation and Production

The Group is still in serious discussion with Chinese independent producers for production of CG feature films. Some of the films are in process of pre-production and fund raising stage.

With the delivery of the CG production services on time, the Group has built up its credits for delivering quality work on time in the industry. Thus more CG production contracts have been secured and will start in production pipeline in May. The Group is also in discussion with several clients about other projects of TV series for later this year.

The co-production project of CG high definition television series with the American partner will continue to be delivered according to the schedule. With this project, the Group will share rights with American parent in China market as well as international market. As the first CG high definition television series in China, this project can be considered a milestone in animation industry in China.

After completion of the widescreen film for a US client in 2005, the Group has further business development into specialised film. Several potential clients are negotiating with the Group for producing customised film for special screening at theme parks and museums.

Digital Content Distribution and Exhibitions

GDC Technology shall continue to deliver DSR™ range of products to customers around the world and expect an increase in revenues when the DCI specification compliant server is developed. GDC Technology is currently involved in the development of a MXF JPEG2000 upgrade kit that aims to satisfy the DCI specifications. The MXF JPEG2000 upgrade kit contains a single board that enables the existing servers to playback 3 dimension movies and movies encoded using different formats. To minimise

the disruption to the DC exhibition business, GDC Technology has taken the important step of ensuring its DC server — SA1000 maintains backward compatibility; this is achieved by supporting multiple DC formats such as DSR™ MPEG2, MXF MPEG2 and MXF JPEG2000. Besides playing back DC content in JPEG2000 format, the same SA1000 Server allows the exhibitors to show live-events and alternative content in DC quality MPEG2 format without adding another piece of equipment in the projection booth. GDC Technology expects to deliver the upgrade kit before the end of this year. GDC Technology has the technology experience of upgrading its worldwide MPEG2 servers installed in DC theaters to meet MXF MPEG2 requirements set out by Hollywood studios in July 2005. The prototype JPEG2000 upgrade kit was showcased at the ShoWest convention in Las Vegas, March 2006. GDC Technology expects to deliver the JPEG2000 upgrade kit to its worldwide customers before the end of 2006.

Digital signage offers marketers and advertisers a unique and innovative tool to bring classic advertising to life. Networks of digital signage show animated messages, precisely targeted at the audience, be it movie-goers in a cinema multiplex, shoppers in a mall, or commuters going home. With the Group's newly developed digital signage solutions that have wide applications such as providing cafeterias and shopping malls ease of content delivery and impressive presentation to networked of LCD, Plasmas or LED video wall displays, the Group expects revenues starting from the next quarter from our digital signage products.

CG Training

The market demand for talented CG artists remains strong, and many domestic and international companies set up and expand their production studios in China. Although the competition on CG training will be more and more intensive, but the Group is confident to maintain its leading position.

In 2005, the Group had set up authorised training centers in Xi'an, Jinan, and Shenyang. The Group plans to further expand training facilities in another 4 or 5 major cities. The Group is also developing more training courses and planning to start to offer by middle of 2006.

With the expansion on geographic coverage and more attractive high quality training courses offered, the Directors are confident to achieve the high growth on revenue from CG training in 2006.

OTHER INFORMATION

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

As at 31 March 2006, the interests and short positions of the Directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV 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 Rule 5.46 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rule"), were as follows:

Long positions in Shares

Mr. Leung Shun Sang, Tony was personally interested in 8,278,000 shares and 679 share options of Shougang Concord Grand (Group) Limited, an associated corporation of the Company.

Save as disclosed above, as at 31 March 2006, 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 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.

Directors' Rights to Acquire Shares or Debentures

There were no share options were granted and outstanding during the period under review. 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.

Interests Discloseable under the SFO and Substantial Shareholders

As at 31 March 2006, 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 and in equity derivatives in, or in respect of, underlying shares of the Company:

Name	Number of shares	Capacity	Approximate percentage of number of shares to total issued shares
Shougang Holding (Hong Kong) Limited	658,466,023	Interest in controlled corporation (<i>note 1</i>)	82.22%
Shougang Concord Grand (Group) Limited	658,466,023	Interest in controlled corporation (<i>note 1</i>)	82.22%
Upper Nice Assets Ltd.	658,466,023	Beneficial interest (<i>note 1</i>)	82.22%
Mr. Li Baoku	58,000,000	Beneficial interest (<i>note 2</i>)	7.24%
Sotas Limited	55,544,102	Beneficial interest (<i>note 3</i>)	6.94%
Morningside CyberVentures Holdings Limited	55,544,102	Interest in a controlled corporation (<i>note 3</i>)	6.94%
Biswick Holdings Limited	55,544,102	Interest in a controlled corporation	6.94%
Verrall Limited	55,544,102	Interest in a controlled corporation (<i>note 3</i>)	6.94%
Verrall Enterprises Holdings Limited	55,544,102	Trustee	6.94%
Mrs. Chan Tan Ching Fen	55,544,102	Founder of a trust (<i>note 3</i>)	6.94%

Notes:

- Upper Nice Assets Ltd. is an indirectly wholly-owned subsidiary of SCG and is regarded to be held as to approximately 41% by Shougang Holding (Hong Kong) Limited as recorded under the register 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.

Upper Nice Assets Ltd. (as the grantor) and SCG (as the guarantor) granted the Put Options (as defined in the joint announcement of the Company and SCG 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. On 5 November 2005, the 58,000,000 Options Shares have been transferred to Mr. Li Baoku at a price of HK\$0.20 per Option Share and the Put Option relating to such Option Shares have also been assigned to Mr. Li Baoku.

2. Mr. Li Baoku beneficially owns 58,000,000 shares of the Company. In the event that he exercises the Put Option, he will be entitled to sell up to all of the Option Shares beneficially owned by him at the Exercise Price HK0.22 and Upper Nice Assets Ltd. is obliged to purchase the 58,000,000 Option Shares of the Company in respect of which the Put Option is exercised at such Exercise Price.

3. The 55,544,102 shares were held by Sotas Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Morningside CyberVentures Holdings Limited. Meanwhile Morningside CyberVentures Holdings Limited is wholly-owned by Biswick Holdings Limited, which is 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.

Short positions in shares and equity derivatives in, or in respect of, underlying shares of the Company:

Name	Number and description of equity derivatives	Number of underlying shares	Capacity	Approximate percentage of interest
Mr. Li Baoku	58,000,000 <i>(Note)</i>	58,000,000	Beneficial owner	7.24%

Note: The 58,000,000 Options Shares have been transferred to Mr. Li Baoku at a price of HK\$0.20 per Option Share and the Put Option relating to such Option Shares have also been assigned to Mr. Li Baoku. Pursuant to the Option Agreement, in the event that he exercises the Put Option, Mr. Li Baoku shall be entitled to sell up to all of the Option Shares beneficially owned by him at the Exercise Price HK\$0.22 and Upper Nice Assets Ltd. is obliged to purchase the 58,000,000 Option Shares of the Company in respect of which the Put Option is exercised at such Exercise Price.

Save as disclosed above, as at 31 March 2006, 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.

Purchase, Redemption or Sale of Listed Securities of the Company

There was no purchase, sales or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the three months ended 31 March 2006.

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 three months ended 31 March 2006.

Competing Interests

As at 31 March 2006, 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 complete or are likely to compete, either directly or indirectly, with the businesses of the Company were as follows:

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	SCG (<i>Note 1</i>)	Property investment and management financial services and cultural recreation content provision (<i>Note 2</i>)	Vice-Chairman & Managing Director
Chen Zheng	SCG (<i>Note 1</i>)	Property investment and management financial services and cultural recreation content provision (<i>Note 2</i>)	Managing Director of Operations
Leung Shun Sang, Tony	SCG (<i>Note 1</i>)	Property investment and management financial services and cultural recreation content provision (<i>Note 2</i>)	Director

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

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

Save as disclosed above, none of the Directors, the chief executive, substantial shareholders or initial management shareholders of the Company or any of its subsidiaries or any of their respective associates, has an interest in any business, which competes or may compete with the business of the Group.

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, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee comprises Mr. Gordon Kwong Che Keung, Mr. Bu Fan Xiao and Mr. Stephen Hui Hung, all of whom are independent non-executive Directors.

The Group's quarterly results for the three months ended 31 March 2006 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.

On behalf of the Board
Chen Zheng
Executive Director

Hong Kong, 12 May 2006

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