



Global Digital Creations Holdings Limited

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)



THIRD QUARTERLY REPORT 2011

* 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 positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim 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 the 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENTS

CORPORATE INFORMATION	3
THIRD QUARTERLY RESULTS	
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	5
INTERIM DIVIDEND	14
MANAGEMENT DISCUSSION AND ANALYSIS	14
PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES	18
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES	18
DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES	19
SUBSTANTIAL SHAREHOLDERS	20
SHARE OPTION SCHEMES	21
DIRECTORS' INTERESTS IN COMPETING BUSINESSES	23
COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES	23
COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS	23
AUDIT COMMITTEE	24
APPRECIATION	24

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Li Shaofeng (*Chairman*)
Mr. Chen Zheng (*Managing Director*)
Mr. Jin Guo Ping (*Deputy Managing Director*)

Non-executive Director

Mr. Leung Shun Sang, Tony

Independent non-executive Directors

Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

Executive Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Chen Zheng
Mr. Jin Guo Ping

Audit Committee

Mr. Kwong Che Keung, Gordon (*Chairman*)
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

Nomination Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Leung Shun Sang, Tony (*Vice Chairman*)
Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

Remuneration Committee

Mr. Leung Shun Sang, Tony (*Chairman*)
Mr. Li Shaofeng (*Vice Chairman*)
Mr. Kwong Che Keung, Gordon
Mr. Hui Hung, Stephen
Prof. Japhet Sebastian Law

Compliance Officer

Mr. Chen Zheng

Company Secretary

Mr. Chiu Ming Kin

CORPORATE INFORMATION *(Continued)*

Authorised Representatives	Mr. Chen Zheng Mr. Chiu Ming Kin
Auditor	Deloitte Touche Tohmatsu
Bermuda Principal Share Registrar and Transfer Office	HSBC Securities Services (Bermuda) Limited 6 Front Street Hamilton HM 11 Bermuda
Hong Kong Branch Share Registrar and Transfer Office	Tricor Standard Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in Hong Kong	Unit 1-7, 20/F., Kodak House II 39 Healthy Street East North Point Hong Kong
Stock Code	8271
Website	www.gdc-world.com

THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") is pleased to report the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2011 with comparative figures for the corresponding periods in the year 2010.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended 30 September 2011

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2011 HK\$'000	2010 HK\$'000 (Restated)	2011 HK\$'000	2010 HK\$'000 (Restated)
Continuing operations					
Revenue	3	33,326	8,833	62,995	29,350
Cost of sales		(15,882)	(6,100)	(39,480)	(20,173)
Gross profit		17,444	2,733	23,515	9,177
Other income and gains	4	853	805	3,518	6,529
Distribution costs and selling expenses		(1,518)	(2,387)	(5,315)	(3,926)
Administrative expenses		(16,667)	(6,169)	(42,770)	(22,279)
Finance costs	5	(2,670)	–	(7,770)	–
Changes in fair value of held-for-trading investments		(2,604)	–	(3,152)	–
Share of loss of an associate		(65)	(46)	(146)	(65)
Loss before tax		(5,227)	(5,064)	(32,120)	(10,564)
Income tax credit (expense)	6	35	209	–	(110)
Loss for the period from continuing operations		(5,192)	(4,855)	(32,120)	(10,674)
Discontinued operations					
Profit for the period from discontinued operations	7	304,515	41,968	387,146	111,546
Profit for the period		299,323	37,113	355,026	100,872
Other comprehensive income:					
Exchange differences arising on translation of foreign operations		5,204	2,927	16,204	5,636
Release of exchange reserve upon disposal of subsidiaries		(5,420)	–	(5,420)	–
Release of special reserve upon disposal of subsidiaries		36,568	–	36,568	–
Total comprehensive income for the period		335,675	40,040	402,378	106,508

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the periods ended 30 September 2011

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2011 HK\$'000	2010 HK\$'000 (Restated)	2011 HK\$'000	2010 HK\$'000 (Restated)
(Loss) profit for the period attributable to:					
Owners of the Company					
– Loss for the period from continuing operations		(4,590)	(4,269)	(30,552)	(9,970)
– Profit for the period from discontinued operations		292,405	25,234	340,815	68,229
		287,815	20,965	310,263	58,259
Non-controlling interests					
– Loss for the period from continuing operations		(602)	(586)	(1,568)	(704)
– Profit for the period from discontinued operations		12,110	16,734	46,331	43,317
		11,508	16,148	44,763	42,613
		299,323	37,113	355,026	100,872
Total comprehensive income for the period attributable to:					
Owners of the Company		324,125	23,415	355,303	63,248
Non-controlling interests		11,550	16,625	47,075	43,260
		335,675	40,040	402,378	106,508
		HK cents	HK cents	HK cents	HK cents
Earnings (loss) per share:	8				
<i>From continuing and discontinued operations</i>					
Basic		22.22	1.62	23.95	4.50
Diluted		22.22	1.62	23.94	4.50
<i>From continuing operations</i>					
Basic		(0.35)	(0.33)	(2.36)	(0.77)
Diluted		(0.35)	(0.33)	(2.36)	(0.77)

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated statement of comprehensive income has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated statement of comprehensive income has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of comprehensive income for the periods ended 30 September 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current period, the Group has applied, for the first time, a number of new or revised Standards and Interpretation ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the financial year beginning on 1 January 2011. The application of these new HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of comprehensive income.

The Group has not early applied the following new or revised Standards, and Amendments to Standard that have been issued but are not yet effective. The following new or revised Standards, and Amendments to Standard have been issued after the date of authorisation for issuance of the consolidated financial statements for the year ended 31 December 2010 and are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of the Other Comprehensive Income ¹
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013.

The five new or revised Standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised Standards are applied early at the same time. The Directors anticipate that these new or revised Standards will be applied in the Group's consolidated financial statements for the financial year ending 31 December 2013.

3. REVENUE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts for computer graphic creation and production	19,068	2,139	36,357	11,937
Rental income	9,454	301	13,898	534
Training fee	4,804	6,393	12,740	16,879
	<u>33,326</u>	<u>8,833</u>	<u>62,995</u>	<u>29,350</u>

4. OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Government grants	711	575	2,032	4,149
Interest income	126	227	505	2,025
Changes in fair value of held-for-trading investments	-	1	-	271
Others	16	2	981	84
	<u>853</u>	<u>805</u>	<u>3,518</u>	<u>6,529</u>

5. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Interest on bank borrowing not wholly repayable within five years	2,670	1,128	7,770	2,736
Less: amount capitalised in the cost of qualifying assets	-	(1,128)	-	(2,736)
	<u>2,670</u>	<u>-</u>	<u>7,770</u>	<u>-</u>

6. INCOMETAX CREDIT (EXPENSE)

Three months ended		Nine months ended	
30 September		30 September	
2011	2010	2011	2010
HK\$'000	HK\$'000	HK\$'000	HK\$'000

Continuing operations

Current tax:

PRC Enterprise Income Tax ("EIT")	35	209	-	(110)
-----------------------------------	----	-----	---	-------

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated statement of comprehensive income for both periods as the Group had no assessable profit arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the Group's subsidiaries in the People's Republic of China (the "PRC"; for the purpose of this report, does not include Hong Kong, Macau and Taiwan) is 25% from 1 January 2008 onwards.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate progressively increased to 25% over a five-year transitional period. The tax concession for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the EIT Law based on the revised income tax rate. For the periods ended 30 September 2011, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 24% to 25% (Periods ended 30 September 2010: 22% to 25%).

7. DISCONTINUED OPERATIONS

On 8 July 2011, the Company, GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, and CAG Digital Investment Holdings Limited (the "Purchaser"), an affiliate of The Carlyle Group, entered into a disposal agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Technology Limited ("GDC Technology"), a non-wholly owned subsidiary of GDC Holdings, and 100% of the issued share capital of GDC Digital Cinema Network Limited ("GDC DCN"), a wholly-owned subsidiary of GDC Holdings, and GDC Holdings is required to procure 80% of the issued share capital of GDC Technology to be sold (the "Disposal").

The Disposal was completed on 6 September 2011. The Group received a net consideration for the Disposal of approximately HK\$311.8 million. The Group now holds approximately 11.93% of the issued share capital of GDC Technology and does not hold any interest in GDC DCN. Accordingly, operations of digital content distribution and exhibitions division and deployment of digital cinema network division were considered as discontinued since 6 September 2011.

Details of the Disposal are set out in the announcements of the Company dated 11 July 2011 and 7 September 2011 and the circular of the Company dated 17 August 2011.

7. DISCONTINUED OPERATIONS (Continued)

The profit for the period from the discontinued operations is analysed as follows:

	1 July 2011 to 6 September 2011 HK\$'000	1 July 2010 to 30 September 2010 HK\$'000	1 January 2011 to 6 September 2011 HK\$'000	1 January 2010 to 30 September 2010 HK\$'000
Profit from discontinued operations	27,186	41,968	109,817	111,546
Gain on disposal of discontinued operations	277,329	–	277,329	–
	<u>304,515</u>	<u>41,968</u>	<u>387,146</u>	<u>111,546</u>

The combined results of the discontinued operations for the period were as follows:

	1 July 2011 to 6 September 2011 HK\$'000	1 July 2010 to 30 September 2010 HK\$'000	1 January 2011 to 6 September 2011 HK\$'000	1 January 2010 to 30 September 2010 HK\$'000
Revenue	122,631	150,668	420,649	384,433
Cost of sales	(64,242)	(84,181)	(217,128)	(213,852)
Gross profit	58,389	66,487	203,521	170,581
Other income and gains	808	1,315	3,122	2,051
Distribution costs and selling expenses	(7,906)	(2,115)	(19,608)	(6,668)
Administrative expenses	(13,742)	(15,129)	(46,320)	(34,318)
Finance costs	(132)	(219)	(312)	(589)
Research and development costs	(2,816)	(2,713)	(7,224)	(6,868)
Profit before tax	34,601	47,626	133,179	124,189
Income tax expense	(7,415)	(5,658)	(23,362)	(12,643)
Profit from discontinued operations	<u>27,186</u>	<u>41,968</u>	<u>109,817</u>	<u>111,546</u>

The gain on disposal of discontinued operations is calculated as follows:

	<i>HK\$'000</i>
Cash consideration received, net of associated losses and transaction costs	311,781
Fair value of the remaining 11.93% interest in GDC Technology	84,393
Net assets disposal of	(167,391)
Non-controlling interests	79,694
Reclassification of exchange and special reserves to profit or loss	<u>(31,148)</u>
Gain on disposal	<u>277,329</u>

8. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	Three months ended 30 September 2011 HK\$'000		Nine months ended 30 September 2011 HK\$'000	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Earnings				
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	287,815	20,965	310,263	58,259
Effect of dilutive potential ordinary shares:				
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	(49)	–	(195)	–
Earnings for the purposes of diluted earnings per share	287,766	20,965	310,068	58,259
	'000	'000	'000	'000
Number of shares				
Number of ordinary shares for the purposes of basic and diluted earnings per share	1,295,256	1,295,246	1,295,256	1,295,246

The computation of diluted earnings per share from continuing and discontinued operations for the periods ended 30 September 2011 does not assume the exercise of the share options of the Company as the exercise prices of the share options were higher than the average market price of the shares of the Company for the periods.

The computation of diluted earnings per share from continuing and discontinued operations for the periods ended 30 September 2010 did not assume the exercise of the share options of the Company and GDC Technology as the exercise prices of the share options were higher than the average market price of the shares of the Company and the fair value of the shares of GDC Technology as determined by the Directors for that periods.

8. EARNINGS (LOSS) PER SHARE (Continued)

From continuing operations

Loss figures are calculated as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period attributable to owners of the Company	287,815	20,965	310,263	58,259
Less: profit for the period from discontinued operations	(292,405)	(25,234)	(340,815)	(68,229)
Loss for the purposes of basic and diluted loss per share from continuing operations	(4,590)	(4,269)	(30,552)	(9,970)

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

The computation of diluted loss per share from continuing operations for the periods ended 30 September 2011 and 2010 has not assumed the exercise of share options of the Company as the effect of which would decrease in loss per share from the continuing operations for both periods and as the exercise prices of the share options were higher than the average market price of the shares of the Company for the periods.

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Share options reserve	Exchange reserve	Special reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	12,953	36	445	245,881	6,362	41,104	31,659	(42,140)	97,478	393,778	176,612	570,390
Profit for the period	-	-	-	-	-	-	-	-	310,263	310,263	44,763	355,026
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	13,892	-	-	13,892	2,312	16,204
Release upon disposal of subsidiaries	-	-	-	-	-	-	(5,420)	36,568	-	31,148	-	31,148
Total comprehensive income for the period	-	-	-	-	-	-	8,472	36,568	310,263	355,303	47,075	402,378
Sub-total	12,953	36	445	245,881	6,362	41,104	40,131	(5,572)	407,741	749,081	223,687	972,768
Exercise of share options of a subsidiary (Note)	-	-	-	-	-	-	-	5,572	-	5,572	20,620	26,192
Lapse of share options granted	-	-	-	-	-	(214)	-	-	214	-	-	-
Lapse of share options granted by a subsidiary	-	-	-	-	-	-	-	-	41	41	(41)	-
Payment of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(138,583)	(138,583)
Release upon disposal of subsidiaries	-	-	-	-	(5,682)	-	-	-	5,682	-	(79,694)	(79,694)
At 30 September 2011	12,953	36	445	245,881	680	40,890	40,131	-	413,678	754,694	25,989	780,683
At 1 January 2010	12,952	-	445	245,881	6,362	27,345	21,565	(46,366)	61,289	329,473	80,432	409,905
Profit for the period	-	-	-	-	-	-	-	-	58,259	58,259	42,613	100,872
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	4,989	-	-	4,989	647	5,636
Total comprehensive income for the period	-	-	-	-	-	-	4,989	-	58,259	63,248	43,260	106,508
Sub-total	12,952	-	445	245,881	6,362	27,345	26,554	(46,366)	119,548	392,721	123,692	516,413
Exercise of share options of a subsidiary	-	-	-	-	-	-	-	2,261	-	2,261	1,039	3,300
Lapse of share options granted	-	-	-	-	-	(4,792)	-	-	4,792	-	-	-
Non-controlling interests arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	27,927	27,927
At 30 September 2010	12,952	-	445	245,881	6,362	22,553	26,554	(44,105)	124,340	394,982	152,658	547,640

Note: The difference arising on dilution of interest in a subsidiary of approximately HK\$5,572,000 represents the excess of proceeds from exercise of share options of GDC Technology before completion of the Disposal of HK\$26,192,000 received by GDC Technology over the carrying amount of non-controlling interests deemed to be disposed of amounting to approximately HK\$20,620,000. The amount is recognised in special reserve in the current period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2011 (Nine months ended 30 September 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue from continuing operations for the nine months ended 30 September 2011 was HK\$62,995,000, when comparing with that of HK\$29,350,000 for the corresponding period in the year 2010, representing a significant increase of 115%. The increase was mainly attributable to increases in revenue from contracts for computer graphic ("CG") creation and production by HK\$24,420,000 as the Group worked on more CG production projects during the period as a result of the recovery of the international animation production industry.

Cost of sales from continuing operations for the nine months ended 30 September 2011 amounted to HK\$39,480,000, when comparing with that of HK\$20,173,000 for the corresponding period in the year 2010, representing an increase of 96%. The increase was mainly due to more CG production costs incurred.

The Group recorded a gross profit from continuing operations of HK\$23,515,000 for the nine months ended 30 September 2011, when comparing with that of HK\$9,177,000 for the corresponding period in the year 2010, representing a significant increase of 156%. The Group's gross profit margin from continuing operations for the nine months ended 30 September 2011 amounted to 37% (Nine months ended 30 September 2010: 31%). The improvement in the gross profit margin was mainly attributable to the fact that the Group worked on more CG production projects with higher profit margins.

Other income and gains from continuing operations for the nine months ended 30 September 2011 amounted to HK\$3,518,000 (Nine months ended 30 September 2010: HK\$6,529,000), representing a decrease of 46%. The decrease was mainly due to decreases in government grants and interest income by HK\$2,117,000 and HK\$1,520,000, respectively.

Distribution costs and selling expenses from continuing operations for the nine months ended 30 September 2011 amounted to HK\$5,315,000 (Nine months ended 30 September 2010: HK\$3,926,000), representing an increase of 35%. The increase was mainly due to more marketing expenses spent on 珠影文化產業園 (Pearl River Film Cultural Park*) (the "Pearl River Film Cultural Park").

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Administrative expenses from continuing operations for the nine months ended 30 September 2011 amounted to HK\$42,770,000 (Nine months ended 30 September 2010: HK\$22,279,000), representing an increase of 92%. The increase was mainly due to depreciation of property, plant and equipment for the period increased by HK\$10,624,000 to HK\$11,990,000 upon completion of the Group's construction of the headquarters building in Shenzhen in late 2010, and higher staff costs and office operating expenses incurred as a result of the growth in the scale of operations of the Group.

Finance costs from continuing operations for the nine months ended 30 September 2011 amounted to HK\$7,770,000 (Nine months ended 30 September 2010: Nil), which represented interest on bank borrowing for the headquarters building in Shenzhen that was not eligible for capitalisation upon completion of the construction.

Following completion of the disposal of interests in GDC Technology Limited ("GDC Technology") and GDC Digital Cinema Network Limited ("GDC DCN") on 6 September 2011, operations of digital content distribution and exhibitions division and deployment of digital cinema network division were considered as discontinued. The profit from the discontinued operations of HK\$387,146,000 for the nine months ended 30 September 2011 represented gain on disposal of discontinued operations of HK\$277,329,000 and profit from discontinued operations from 1 January 2011 to 6 September 2011 of HK\$109,817,000.

Overall, the Group recorded a profit attributable to owners of the Company of HK\$310,263,000 for the nine months ended 30 September 2011, when comparing with that of HK\$58,259,000 for the corresponding period in the year 2010, representing a significant increase of 433%. Excluding the profit for the period from discontinued operations, the Group recorded a loss attributable to owners of the Company from continuing operations of HK\$30,552,000 for the nine months ended 30 September 2011, when comparing with that of HK\$9,970,000 for the corresponding period in the year 2010, also representing a significant increase of 206%.

Basic and diluted earnings per share for the nine months ended 30 September 2011 amounted to HK23.95 cents (Nine months ended 30 September 2010: HK4.50 cents) and HK23.94 cents (Nine months ended 30 September 2010: HK4.50 cents), respectively, representing significant increases of 432% and 432% when comparing with that for the corresponding period in the year 2010. Excluding the profit for the period from discontinued operations, basic and diluted loss per share for the nine months ended 30 September 2011 amounted to HK2.36 cents (Nine months ended 30 September 2010: HK0.77 cents), also representing a significant increase of 206% when comparing with that for the corresponding period in the year 2010.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK

CG creation and production

For the nine months ended 30 September 2011, revenue from contracts for CG creation and production increased significantly by 205% to HK\$36,357,000 when comparing with that for the corresponding period in the year 2010. The Group currently has five CG production projects in progress from Australia, Europe and North America and there are several projects under negotiation as well. The Group would not only continue to deliver high quality products to customers, but also enhance its financial control and production efficiency to improve its performance.

The Group's diversification in intellectual property ("IP") investment achieves a preliminary success. At present, two 3D-animated films are nearly completed; one CG-animated television series have been completed and the Group has appointed an international distribution agent; and one traditional-animated television series have also been completed and are now being distributed both domestically and internationally. Besides, the Group would invest in one more CG-animated television series and some pre-production works have been started. In view of the growing 3D film and television market worldwide and the expanding animation industry in the People's Republic of China (the "PRC"; for the purpose of this report, does not include Hong Kong, Macau and Taiwan), the Group continues to invest in its own IP assets and plans for expansion of related businesses. The Group also plans to develop its local creation and production business in the PRC, production of a project in Shenzhen has been commenced.

CG training

For the nine months ended 30 September 2011, due to greater competition in the market, training fee from CG training division decreased by 25% to HK\$12,740,000 when comparing with that for the corresponding period in the year 2010. In order to improve the performance of the division, the Group would not only upgrade the existing training courses with the latest CG technology, but also organise more training programmes in other areas in response to market demands. The Group would also enhance its marketing efforts to expand recruitment channels, strengthen the quality of training and with a view to improve the employment rate of graduates. Besides, the Group continues to co-operate with prominent colleges in the PRC to organise "Skills and Qualifications" training programmes for their students in achieving "One Course, Multiple Certifications", and to hone their practical skills to prepare for immediate employment after graduation.

In addition to the Group's training centres in Shanghai, Shenzhen, Wuxi, Chongqing and Guangzhou, the Group plans to set up a new training centre in northern China to provide a more comprehensive geographical coverage in the PRC, with a view to stimulate and promote its training business to those areas with developed animation industry and further expand its training network.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural park

During the nine months ended 30 September 2011, the construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park has commenced with an aggregate construction fee of approximately HK\$92.0 million. The Group has prepared a detailed construction plan with several renowned architects, consultants and building management companies for the redevelopment of other phases of the Pearl River Film Cultural Park which has been submitted to the relevant PRC authorities for approval. The redeveloped Pearl River Film Cultural Park includes, subject to approval, a commercial complex comprising cinema, shops and restaurants, and a new multi-storey office tower.

Given the prime location of the Pearl River Film Cultural Park, the urban redevelopment policy in Guangzhou, the rapid economic growth and development of the retail and recreation market in the PRC, the Group is of the view that the whole redevelopment of the Pearl River Film Cultural Park provides a good opportunity for the Group to tap into the rapid media entertainment and property development business in the PRC.

Digital content distribution and exhibitions & Deployment of digital cinema network – discontinued operations

As a result of an increase in orders of digital cinema equipment from customers in the PRC and worldwide during the period from 1 January 2011 to 6 September 2011, segment revenue from digital content distribution and exhibitions division reported an increment of 8% to HK\$411,133,000 when comparing with that for the nine months ended 30 September 2010.

Since more exhibitors participated in the virtual print fee (“VPF”) arrangements and more digital cinema networks were deployed, segment revenue from deployment of digital cinema network division increased by 123% to HK\$9,516,000 for the period from 1 January 2011 to 6 September 2011 when comparing with that for the nine months ended 30 September 2010.

On 8 July 2011, the Group signed a disposal agreement to dispose most of its interest in digital content distribution and exhibitions division and its entire interest in deployment of digital cinema network division. The disposal was completed on 6 September 2011 and the Group received a net consideration for the disposal of HK\$311.8 million. The Group now holds 11.93% of the issued share capital of GDC Technology and does not hold any interest in GDC DCN.

The Group considered that the disposal represented a good opportunity for the Group to realise its investment in these divisions at a fair and reasonable price and enabled the Group to further strengthen its current cash flows and liquidity positions to finance the construction works of the redevelopment of various phases of the Pearl River Film Cultural Park once the detailed construction plan has been approved.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the nine months ended 30 September 2011.

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

As at 30 September 2011, the interests and short positions of the Directors and chief executives of the Company or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Approximate percentage of issued share capital of the Company as at 30.09.2011
		Interests in shares	Interests under equity derivatives*	Total interests	
Mr. Li Shaofeng	Beneficial owner	-	12,950,000	12,950,000	0.99%
Mr. Chen Zheng	Beneficial owner	8,728,200	11,360,000	20,088,200	1.55%
Mr. Jin Guo Ping	Beneficial owner	-	2,590,000	2,590,000	0.19%
Mr. Leung Shun Sang, Tony	Beneficial owner	20,008,200	11,370,000	31,378,200	2.42%
Mr. Kwong Che Keung, Gordon	Beneficial owner	800,820	1,780,000	2,580,820	0.19%
Mr. Hui Hung, Stephen	Beneficial owner	800,820	1,780,000	2,580,820	0.19%
Pro. Japhet Sebastian Law	Beneficial owner	-	1,290,000	1,290,000	0.09%

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

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

Save as disclosed above, as at 30 September 2011, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the nine months ended 30 September 2011 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2011, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Approximate percentage of issued share capital of the Company as at 30.09.2011
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	621,168,023 (Note)	47.95%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	621,168,023 (Note)	47.95%
Shougang Concord Grand (Group) Limited ("Shougang Grand")	Interests of controlled corporations	621,168,023 (Note)	47.95%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	621,168,023 (Note)	47.95%
Keywise Capital Management (HK) Limited	Investment manager	74,988,000	5.79%

Note: Upper Nice is an indirect wholly-owned subsidiary of Shougang Grand. Shougang Grand was held as to approximately 37.36% by Wheeling, a wholly-owned subsidiary of Shougang Holding. Accordingly, all of these corporations are deemed to be interested in the shares of the Company which Upper Nice is interested under the SFO.

Save as disclosed above, as at 30 September 2011, the Company has not been notified of any other person or corporation (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 18 July 2003, the Scheme which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was granted, exercised or cancelled in accordance with the terms of the Scheme during the nine months ended 30 September 2011. Details of movements in the share options under the Scheme during the period are as follows:

Category or name of grantees	Number of share options to subscribe for shares of the Company					Date of grant	Exercise period	Exercise price per share
	Balance as at 01.01.2011	Transferred to other category during the period	Transferred from other category during the period	Lapsed during the period	Balance as at 30.09.2011			
Directors								
Mr. Li Shaofeng	12,950,000	-	-	-	12,950,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
Mr. Chen Zheng	4,890,000	-	-	-	4,890,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	6,470,000	-	-	-	6,470,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	11,360,000	-	-	-	11,360,000			
Mr. Jin Guo Ping	2,590,000	-	-	-	2,590,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
Mr. Leung Shun Sang, Tony	4,900,000	-	-	-	4,900,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	6,470,000	-	-	-	6,470,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	11,370,000	-	-	-	11,370,000			
Mr. Kwong Che Keung, Gordon	490,000	-	-	-	490,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	1,290,000	-	-	-	1,290,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	1,780,000	-	-	-	1,780,000			
Mr. Hui Hung, Stephen	490,000	-	-	-	490,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	1,290,000	-	-	-	1,290,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	1,780,000	-	-	-	1,780,000			
Prof. Japhet Sebastian Law	1,290,000	-	-	-	1,290,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	43,120,000	-	-	-	43,120,000			
Employees of the Group	9,900,000	-	-	-	9,900,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	25,900,000	(800,000) ¹⁾	-	-	25,100,000	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	35,800,000	(800,000)	-	-	35,000,000			
Other participants	4,900,000	-	-	-	4,900,000	30.10.2007	30.10.2007-29.10.2012	HK\$2.75
	-	-	800,000 ¹⁾	(800,000)	-	14.12.2010	14.12.2010-03.08.2013	HK\$0.87
	4,900,000	-	800,000	(800,000)	4,900,000			
	83,820,000	(800,000)	800,000	(800,000)	83,020,000			

Note:

- Such share options were re-classified from "Employees of the Group" to the category of "Other participants" when those grantees ceased to be employees of the Group during the nine months ended 30 September 2011. According to the Scheme, such shares options lapsed on the expiry of the three-month period following the date of cessation as employees of the Group.

SHARE OPTION SCHEMES (Continued)

(b) Share option scheme of a former subsidiary of the Company – GDC Technology Limited (“GDC Technology”)

Each of the Company and Shougang Grand has adopted the share option scheme of GDC Technology (previously a non wholly-owned subsidiary of the Company which ceased to be a subsidiary of the Company on 6 September 2011), by a shareholders’ resolution passed at their respective special general meeting held on 19 September 2006. No share option was granted in accordance with the terms of the scheme during the period from 1 January 2011 to 6 September 2011 (the “Relevant Period”). Details of movements in the share options under the scheme during the Relevant Period are as follows:

Category or name of grantees	Number of shares options to subscribe for shares of GDC Technology					Date of grant	Exercise period	Exercise price per share
	Balance as at the beginning of the Relevant Period	Exercise during the Relevant Period	Lapsed during the Relevant Period	Cancelled during the Relevant Period	Balance as at the end of the Relevant Period			
Directors								
Mr. Li Shaofeng	2,300,000	(2,300,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
Mr. Chen Zheng	1,650,000	(1,650,000)	-	-	-	02.11.2007	02.11.2007-01.11.2012	HK\$2.00
	1,700,000	(1,700,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
	3,350,000	(3,350,000)	-	-	-			
Mr. Jin Guo Ping	400,000	(400,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
Mr. Leung Shun Sang, Tony	1,000,000	(1,000,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
Mr. Kwong Che Keung, Gordon	165,000	(165,000)	-	-	-	02.11.2007	02.11.2007-01.11.2012	HK\$2.00
	200,000	(200,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
	365,000	(365,000)	-	-	-			
Mr. Hui Hung, Stephen	165,000	(165,000)	-	-	-	02.11.2007	02.11.2007-01.11.2012	HK\$2.00
	200,000	(200,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
	365,000	(365,000)	-	-	-			
Prof. Japhet Sebastian Law	200,000	(200,000)	-	-	-	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
	7,980,000	(7,980,000)	-	-	-			
Employees of the Group	1,650,000	(1,650,000)	-	-	-	02.11.2007	02.11.2007-01.11.2012	HK\$2.00
	6,000,000	(3,466,000)	(95,000) ¹	(2,000,000) ²	439,000	14.12.2010	14.12.2010-13.12.2015	HK\$2.00
	7,650,000	(5,116,000)	(95,000)	(2,000,000)	439,000			
	15,630,000	(13,096,000)	(95,000)	(2,000,000)	439,000			

SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of a former subsidiary of the Company – GDC Technology Limited (“GDC Technology”) *(Continued)*

Notes:

1. *Such share options were lapsed when those grantees ceased to be employees of the Group during the Relevant Period.*
2. *Such share options were cancelled by mutual agreement between the grantee and GDC Technology on completion of disposal of GDC Technology by the Group in consideration for payment of cancellation fee of HK\$1,643,800 by CAG Digital Investment Holdings Limited, the new shareholder of GDC Technology.*

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

During the nine months ended 30 September 2011, none of the Directors had an interest in a business (other than those businesses where the Director were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with businesses of the Group.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules throughout the nine months ended 30 September 2011.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all of the Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the nine months ended 30 September 2011.

AUDIT COMMITTEE

The Group's third quarterly results for the nine months ended 30 September 2011 were unaudited. The Company's audit committee (the "Audit Committee") has reviewed the 2011 unaudited third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company on 4 November 2011 for, amongst other things, reviewing the third quarterly results of the Group for the nine months ended 30 September 2011.

APPRECIATION

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

By Order of the Board

Li Shaofeng

Chairman

Hong Kong, 11 November 2011