



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
2012



* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 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.

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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
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Executive Committee

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

Audit Committee

Mr. Kwong Che Keung, Gordon (*Chairman*)
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Nomination Committee

Mr. Li Shaofeng (*Chairman*)
Mr. Leung Shun Sang, Tony (*Vice Chairman*)
Mr. Kwong Che Keung, Gordon
Prof. Japhet Sebastian Law
Mr. Chan Chung Chun

Remuneration Committee

Prof. Japhet Sebastian Law (*Chairman*)
Mr. Li Shaofeng (*Vice Chairman*)
Mr. Leung Shun Sang, Tony
Mr. Kwong Che Keung, Gordon
Mr. Chan Chung Chun

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”) hereby reports the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2012 with comparative figures for the corresponding periods in the year 2011.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended 30 September 2012

| | NOTES | Three months ended 30 September | | Nine months ended 30 September | |
|---|-------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Continuing operations | | | | | |
| Revenue | 3 | 26,140 | 33,326 | 78,552 | 62,995 |
| Cost of sales | | (16,433) | (15,882) | (52,405) | (39,480) |
| Gross profit | | 9,707 | 17,444 | 26,147 | 23,515 |
| Other income | 4 | 1,222 | 853 | 20,718 | 3,518 |
| Distribution costs and selling expenses | | (1,493) | (1,518) | (8,674) | (5,315) |
| Administrative expenses | | (12,891) | (16,667) | (43,884) | (42,770) |
| Finance costs | 5 | (2,840) | (2,670) | (8,746) | (7,770) |
| Other gains and losses | 6 | (2,310) | (2,604) | (7,126) | (3,152) |
| Share of loss of an associate | | - | (65) | - | (146) |
| Loss before tax | | (8,605) | (5,227) | (21,565) | (32,120) |
| Income tax credit | 7 | - | 35 | - | - |
| Loss for the period from continuing operations | | (8,605) | (5,192) | (21,565) | (32,120) |
| Discontinued operations | | | | | |
| Profit for the period from discontinued operations | 8 | - | 304,515 | - | 387,146 |
| (Loss) Profit for the period | | (8,605) | 299,323 | (21,565) | 355,026 |
| Other comprehensive income (expense): | | | | | |
| Exchange differences arising on translation of foreign operations | | 9,005 | 5,204 | 727 | 16,204 |
| 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 (expense) for the period | | 400 | 335,675 | (20,838) | 402,378 |

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

For the periods ended 30 September 2012

| NOTE | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|------------------|-----------------------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| (Loss) profit for the period attributable to: | | | | |
| Owners of the Company | | | | |
| – Loss for the period from continuing operations | (6,730) | (4,590) | (17,024) | (30,552) |
| – Profit for the period from discontinued operations | – | 292,405 | – | 340,815 |
| | <u>(6,730)</u> | <u>287,815</u> | <u>(17,024)</u> | <u>310,263</u> |
| Non-controlling interests | | | | |
| – Loss for the period from continuing operations | (1,875) | (602) | (4,541) | (1,568) |
| – Profit for the period from discontinued operations | – | 12,110 | – | 46,331 |
| | <u>(1,875)</u> | <u>11,508</u> | <u>(4,541)</u> | <u>44,763</u> |
| | <u>(8,605)</u> | <u>299,323</u> | <u>(21,565)</u> | <u>355,026</u> |
| Total comprehensive income (expense) for the period attributable to: | | | | |
| Owners of the Company | 1,940 | 324,125 | (16,297) | 355,303 |
| Non-controlling interests | (1,540) | 11,550 | (4,541) | 47,075 |
| | <u>400</u> | <u>335,675</u> | <u>(20,838)</u> | <u>402,378</u> |
| | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| (Loss) earnings per share: | | 9 | | |
| From continuing and discontinued operations | | | | |
| Basic | <u>(0.44)</u> | <u>22.22</u> | <u>(1.12)</u> | <u>23.95</u> |
| Diluted | <u>(0.44)</u> | <u>22.22</u> | <u>(1.12)</u> | <u>23.94</u> |
| From continuing operations | | | | |
| Basic and diluted | <u>(0.44)</u> | <u>(0.35)</u> | <u>(1.12)</u> | <u>(2.36)</u> |

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 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current period, the Group has applied, for the first time, amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the financial year beginning on 1 January 2012. The application of these amendments to 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 amendments to HKFRSs that have been issued after the date the consolidated financial statements for the year ended 31 December 2011 were authorised for issuance and are not yet effective.

| | |
|--|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle ¹ |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹ |

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

The Directors anticipate that the application of these amendments to HKFRSs, will have no material impact on the unaudited condensed consolidated statement of comprehensive income.

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 | |
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from contracts for computer graphic ("CG") creation and production | 13,258 | 19,068 | 42,782 | 36,357 |
| Rental income | 7,995 | 9,454 | 22,959 | 13,898 |
| Training fee | 4,887 | 4,804 | 12,811 | 12,740 |
| | <u>26,140</u> | <u>33,326</u> | <u>78,552</u> | <u>62,995</u> |

4. OTHER INCOME

| | Three months ended | | Nine months ended | |
|---|--------------------|------------|-------------------|--------------|
| | 30 September | | 30 September | |
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | |
| Government grants | 618 | 711 | 3,422 | 2,032 |
| Interest income on bank balances | 437 | 126 | 6,249 | 505 |
| Dividend income from available-for-sale investments | - | - | 10,834 | - |
| Others | 167 | 16 | 213 | 981 |
| | <u>1,222</u> | <u>853</u> | <u>20,718</u> | <u>3,518</u> |

5. FINANCE COSTS

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------|-------------------|--------------|
| | 30 September | | 30 September | |
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | |
| Interest on bank borrowing | | | | |
| – Wholly repayable within five years | 2,840 | - | 8,746 | - |
| – Not wholly repayable within five years | - | 2,670 | - | 7,770 |
| | <u>2,840</u> | <u>2,670</u> | <u>8,746</u> | <u>7,770</u> |

6. OTHER GAINS AND LOSSES

| | Three months ended | | Nine months ended | |
|---|----------------------|----------------|----------------------|----------------|
| | 30 September 2012 | 2011 | 30 September 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | |
| Changes in fair value of held-for-trading investments | (2,366) | (2,604) | (6,425) | (3,152) |
| (Gain) loss on disposal of property, plant and equipment | 56 | – | (701) | – |
| | <u>(2,310)</u> | <u>(2,604)</u> | <u>(7,126)</u> | <u>(3,152)</u> |

7. INCOMETAX CREDIT

| | Three months ended | | Nine months ended | |
|-----------------------------------|----------------------|----------|----------------------|----------|
| | 30 September 2012 | 2011 | 30 September 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | |
| Current tax: | | | | |
| PRC Enterprise Income Tax ("EIT") | – | 35 | – | – |

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 from continuing operations 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, except for those subsidiaries described below.

7. INCOMETAX CREDIT *(Continued)*

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 nine months ended 30 September 2012, the relevant tax rates for the Group's subsidiaries in the PRC were 25% (Nine months ended 30 September 2011: 24% to 25%).

No provision for tax in other jurisdictions has been made in the unaudited condensed consolidated statement of comprehensive income for both periods as the Group had no assessable profit from continuing operations arising in other jurisdictions.

8. 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 Tech"), 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, in which GDC Holdings is required to procure 80% of the issued share capital of GDC Tech to be sold (the "Disposal").

The Disposal was completed on 6 September 2011. The Group received a consideration for the Disposal of approximately HK\$347,547,000. Accordingly, the two operating segments, namely digital content distribution and exhibitions, and deployment of digital cinema network operated by GDC Tech and its subsidiaries and GDC DCN and its subsidiaries respectively, were considered as discontinued operations since 6 September 2011. As at 30 September 2012, the Group holds approximately 11.53% of the issued share capital of GDC Tech.

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.

8. DISCONTINUED OPERATIONS (Continued)

The profit for the period ended 6 September 2011 from the discontinued operations is analysed as follows:

| | 1 January 2011 to 6 September 2011 |
|---|---|
| | <i>HK\$'000</i> |
| Profit from discontinued operations | 109,817 |
| Gain on disposal of discontinued operations | <u>277,329</u> |
| | <u>387,146</u> |

The results of the discontinued operations for the period ended 6 September 2011 were as follows:

| | 1 January 2011 to 6 September 2011 |
|---|---|
| | <i>HK\$'000</i> |
| Revenue | 420,649 |
| Cost of sales | <u>(217,128)</u> |
| Gross profit | 203,521 |
| Other income and gains | 3,122 |
| Distribution costs and selling expenses | (19,608) |
| Administrative expenses | (46,320) |
| Finance costs | (312) |
| Research and development costs | <u>(7,224)</u> |
| Profit before tax | 133,179 |
| Income tax expense | <u>(23,362)</u> |
| Profit from discontinued operations | <u>109,817</u> |

9. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted (loss) 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 | | Nine months ended 30 September | |
|--|------------------------------------|------------------|-----------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| (Loss) Earnings | | | | |
| (Loss) Earnings for the purposes of basic (loss) earnings per share ((loss) profit for the period attributable to owners of the Company) | (6,730) | 287,815 | (17,024) | 310,263 |
| 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) |
| (Loss) Earnings for the purposes of diluted (loss) earnings per share | <u>(6,730)</u> | <u>287,766</u> | <u>(17,024)</u> | <u>310,068</u> |
| | '000 | '000 | '000 | '000 |
| Number of shares | | | | |
| Number of ordinary shares for the purposes of basic and diluted (loss) earnings per share | <u>1,518,256</u> | <u>1,295,256</u> | <u>1,518,256</u> | <u>1,295,256</u> |

The effect of incremental shares from assumed exercise of share options has been excluded from calculation of the diluted loss per share from continuing and discontinued operations for the three months and nine months ended 30 September 2012 because their assumed exercise would result in decrease in loss per share from continuing and discontinued operations.

The computation of diluted earnings per share from continuing and discontinued operations for the three months and nine months 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.

From continuing operations

Loss figures are calculated as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|----------------|-----------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loss for the purposes of basic and diluted loss per share from continuing operations | <u>(6,730)</u> | <u>(4,590)</u> | <u>(17,024)</u> | <u>(30,552)</u> |

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

10. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital HK\$'000 | Share premium reserve HK\$'000 | Capital contribution reserve HK\$'000 (Note a) | Contributed surplus reserve HK\$'000 (Note b) | Statutory reserve HK\$'000 (Note c) | Share options reserve HK\$'000 | Exchange reserve HK\$'000 | Special reserve HK\$'000 | Retained earnings HK\$'000 | Attributable to owners of the Company HK\$'000 | Non-controlling Interests HK\$'000 | Total HK\$'000 |
|---|---------------------------|-----------------------------------|--|---|---|-----------------------------------|------------------------------|-----------------------------|-------------------------------|---|---------------------------------------|-------------------|
| | | | | | | | | | | | | |
| At 1 January 2012 | 15,183 | 75,856 | 445 | 245,881 | 680 | 40,890 | 44,568 | - | 409,595 | 833,098 | 25,355 | 858,453 |
| Loss for the period | - | - | - | - | - | - | - | - | (17,024) | (17,024) | (4,541) | (21,565) |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | 727 | - | - | 727 | - | 727 |
| Total comprehensive income (expense) for the period | - | - | - | - | - | - | 727 | - | (17,024) | (16,297) | (4,541) | (20,838) |
| Sub-total | 15,183 | 75,856 | 445 | 245,881 | 680 | 40,890 | 45,295 | - | 392,571 | 816,801 | 20,814 | 837,615 |
| Lapse of share options granted | - | - | - | - | - | (1,804) | - | - | 1,804 | - | - | - |
| At 30 September 2012 | 15,183 | 75,856 | 445 | 245,881 | 680 | 39,086 | 45,295 | - | 394,375 | 816,801 | 20,814 | 837,615 |
| 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 | - | - | - | - | - | - | - | 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 interest | - | - | - | - | - | - | - | - | - | - | (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 |

Notes:

- (a) Capital contribution reserve represents accumulated effect of imputed interest on amount due to other related party.
- (b) Contributed surplus reserve represents (1) the difference between the nominal value of share capital of the Company and the aggregate amount of nominal value of share capital of subsidiaries acquired by the Company through an exchange of shares pursuant to a group reorganisation, which was completed on 31 December 2002, amounting to approximately HK\$40,271,000; and (2) the transfer of the share premium reserve of approximately HK\$589,670,000 as at 31 December 2007 to contributed surplus reserve which was applied to eliminate the deficit of the Company of approximately HK\$384,060,000 as at 31 December 2007, in accordance to a special resolution passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008.
- (c) As stipulated by the rules and regulations in the PRC, the subsidiaries of the Company established in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior years losses) to a general reserve fund until the balance of the fund reaches 50% of their registered capital thereafter any further appropriation is optional and is determinable by the companies' boards of directors.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2012 (Nine months ended 30 September 2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue from continuing operations for the nine months ended 30 September 2012 was HK\$78,552,000, when compared with that of HK\$62,995,000 for the corresponding period in the year 2011, representing a significant increase of 25%. The increase was mainly attributable to increase in revenue from contracts for computer graphic ("CG") creation and production and rental income by HK\$6,425,000 and HK\$9,061,000, respectively.

Cost of sales from continuing operations for the nine months ended 30 September 2012 amounted to HK\$52,405,000, when compared with that of HK\$39,480,000 for the corresponding period in the year 2011, representing an increase of 33%. The increase was mainly due to more CG production costs incurred.

The Group recorded a gross profit from continuing operations of HK\$26,147,000 for the nine months ended 30 September 2012, when compared with that of HK\$23,515,000 for the corresponding period in the year 2011, representing an increase of 11%. The Group's gross profit margin from continuing operations for the nine months ended 30 September 2012 amounted to 33% (Nine months ended 30 September 2011: 37%). The decrease in the gross profit margin was mainly attributable to increase in the CG production costs.

Other income from continuing operations for the nine months ended 30 September 2012 amounted to HK\$20,718,000 (Nine months ended 30 September 2011: HK\$3,518,000), representing a significant increase of 489%. The increase was mainly due to dividend of HK\$10,834,000 received during the period and increases in government grants and interest income on bank balances by HK\$1,390,000 and HK\$5,744,000, respectively.

Distribution costs and selling expenses from continuing operations for the nine months ended 30 September 2012 amounted to HK\$8,674,000 (Nine months ended 30 September 2011: HK\$5,315,000), representing an increase of 63%. The increase was mainly due to more marketing expenses spent on CG production project during the period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Administrative expenses from continuing operations for the nine months ended 30 September 2012 amounted to HK\$43,884,000 (Nine months ended 30 September 2011: HK\$42,770,000), representing a slight increase of 3%. The increase was mainly due to 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 2012 amounted to HK\$8,746,000 (Nine months ended 30 September 2011: HK\$7,770,000), which represented interest on bank borrowing for the headquarters building in Shenzhen.

Other gains and losses from continuing operations for the nine months ended 30 September 2012 amounted to HK\$7,126,000 (Nine months ended 30 September 2011: HK\$3,152,000). It included change in fair value of held-for-trading investments of HK\$6,425,000 (Nine months ended 30 September 2011: HK\$3,152,000) and loss on disposal of property, plant and equipment of HK\$701,000 (Nine months ended 30 September 2011: Nil)

Overall, the Group recorded a loss attributable to owners of the Company of HK\$17,024,000 for the nine months ended 30 September 2012, compared to the profit attributable to owner of the Company of HK\$310,263,000 for the corresponding period in the year 2011. In the corresponding period in the year 2011, profit attributable to owners of the company included HK\$340,815,000 contributed by the Group's digital content distribution and exhibitions, and deployment of digital cinema network operations, which have been discontinued following disposal of such business by the Group in September 2011.

Basic and diluted loss per share from continuing and discontinued operations for the nine months ended 30 September 2012 amounted to HK1.12 cents (Basic and diluted earnings per share for the nine months ended 30 September 2011: HK23.95 cents and HK23.94 cents respectively). Basic and diluted loss per share from continuing operations for the nine months ended 30 September 2012 amounted to HK1.12 cents (Nine months ended 30 September 2011: HK2.36 cents), representing a significant improvement of 53% when compared with that for the corresponding period in the year 2011.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK

CG creation and production

For the nine months ended 30 September 2012, revenue from CG creation and production division was HK\$65,085,000, representing a significant increase of HK\$15,442,000 when compared with HK\$49,643,000 for the corresponding period in the year 2011. The increase comprised increase in revenue from contracts for CG creation and production and rental income by HK\$6,425,000 and HK\$9,017,000, respectively.

The Group completed two CG production projects for European clients during the third quarter of 2012 and currently has four projects in progress from clients in North America and Europe. There are also several co-production projects and service projects with completed tests or under commercial negotiations, two of which are expected to commence production in the fourth quarter of 2012. A string of projects produced by the Group in recent years have been launched on major European and American entertainment media and are highly appreciated by clients and the industry. While constantly providing quality products and services to clients, the Group will improve financial control and productivity to address the challenges from exchange rate fluctuations and the rising labour costs in a bid to boost its business performance.

The Group's diversification into intellectual property investment has achieved a preliminary success. With the successful public release of one 3D-animated film in the PRC and commencement of the domestic and overseas distribution of one 3D-animated television series, the Group has embarked on the creation and production of a new 3D-animated film. The Group has also initiated the planning of new intellectual property animation projects, including certain projects which have started production of the first print and negotiations on cooperation with several companies showing interests, and intends to expand to the animation-related businesses.

In view of the broadening applications of CG creation and production and the continuous expansion of relevant businesses in the PRC, the Group adjusted and consolidated the production business, with two new subsidiaries being established in Beijing and Shenzhen respectively to expand new businesses. After completion of a creative production project on a large theme park in Shenzhen last year, the Group has started production of certain new projects.

CG training

The CG training division made steady business expansion in the third quarter of 2012. With the recovery of the market, exceptional progress was made in the area of recruitment with notable growths both in recruitment hotline enquires and enrolments compared to the same period last year. While aggressively recruiting, the CG training division exercised strict control over the quality of education to hone the professional capability of graduates and maintained long-term talent output cooperation with plenty of domestic production enterprises, thus improving the employment rate of students after graduation and building up a sound training brand image.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG training (Continued)

During the third quarter of 2012, the CG training division launched an advanced course according to market needs. Most students were hired by TV, film and animation producers and game developers before graduation. The Group will continue to launch courses that target market needs given that the advanced course has brought a competitive edge to the Group in the industry.

The CG training division is attempting to join forces with various TV, film and animation producers and game developers to provide specially tailored training courses targeting firms' job requirements, so as to further shorten students' time to accustom to their jobs once they join and increase firms' productivity.

In addition, the Group continues to seek cooperation with colleges in the PRC to organize "Training on Campus" and "Skills and Qualifications" training programmes so as to offer "One Course, Multiple Certifications" and enable immediate employment after graduation.

Starting from the second quarter of 2012, the Group has jointly established the "Alliance of Hundred Universities Original Animation Talent" with Tencent Original Animation Talent Union to recruit and seek for talents in the PRC universities in order to broaden the source of students.

Cultural park

The fundamental construction, mechanical and electrical installation and interior and exterior decoration works of the redevelopment project of Phase I of the Pearl River Film Cultural Park were completed in June 2012.

With the smooth progress of business promotion for Phase I of the Pearl River Film Cultural Park, the Group has entered into letters of intent to lease with a number of renowned domestic and foreign brands, which are expected to develop the Pearl River Film Cultural Park as a fashionable lifestyle centre that is rich in Guangzhou culture and in line with its overall positioning.

The Phase II redevelopment project of the Pearl River Film Cultural Park has also proceeded well with interim approvals obtained from relevant regulatory authorities of the PRC. Meanwhile, the Group has commenced concept design with several renowned architects, commercial consultants and property management companies for Phase II of the Pearl River Film Cultural Park project. It is planned that the redeveloped Pearl River Film Cultural Park will include, subject to approval, a commercial complex comprising a cinema, shops, restaurants and recreational zones, and a multi-storey office tower.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Cultural park (Continued)

Given the prime location of the Pearl River Film Cultural Park, the urban redevelopment policy in Guangzhou, the rapid economic growth and the booming retail and recreation market in the PRC, the Group is of view that the whole redevelopment of the Pearl River Film Cultural Park will bring sustainable and steady income growth to the Group and improve its profitability. It provides a good opportunity for the Group to tap into the media entertainment and cultural consumption property development businesses in the PRC which have been growing rapidly.

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

Neither the Company nor any of its subsidiaries has 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 2012.

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

As at 30 September 2012, 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 |
|-----------------------------|--------------------------------------|--|-------------------------------------|-----------------|---|
| | | Interests in shares | Interests under equity derivatives* | Total interests | |
| Mr. Li Shaofeng | Beneficial owner | - | 12,950,000 | 12,950,000 | 0.85% |
| Mr. Chen Zheng | Beneficial owner | 208,728,200 | 11,360,000 | 220,088,200 | 14.50% |
| Mr. Jin Guo Ping | Beneficial owner | - | 2,590,000 | 2,590,000 | 0.17% |
| Mr. Leung Shun Sang, Tony | Beneficial owner | 30,008,200 | 11,370,000 | 41,378,200 | 2.73% |
| Mr. Kwong Che Keung, Gordon | Beneficial owner | 10,800,820 | 1,780,000 | 12,580,820 | 0.83% |
| Prof. Japhet Sebastian Law | Beneficial owner | 3,000,000 | 1,290,000 | 4,290,000 | 0.28% |

* The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 18 July 2003 (the "Share Option Scheme"). Upon exercise of the share options in accordance with the Share Option 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 "Share Option Scheme" section.

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

(Continued)

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

Save as disclosed above, as at 30 September 2012, 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 2012 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 2012, 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 total issued share capital of the Company |
|---|--------------------------------------|--------------------------------------|---|
| Shougang Holding (Hong Kong) Limited ("Shougang Holding") | Interests of controlled corporations | 619,168,023 (Note) | 40.78% |
| Wheeling Holdings Limited ("Wheeling") | Interests of controlled corporations | 619,168,023 (Note) | 40.78% |
| Shougang Concord Grand (Group) Limited ("Shougang Grand") | Interests of controlled corporations | 619,168,023 (Note) | 40.78% |
| Upper Nice Assets Ltd. ("Upper Nice") | Beneficial owner | 619,168,023 (Note) | 40.78% |

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 these corporation are deemed to be interested in the shares capital of the Company which Upper Nice is interested under the SFO.

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, as at 30 September 2012, the Company has not been notified of any other person or corporations (other than the Directors and chief executive(s) 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 SCHEME

On 18 July 2003, the share option scheme of the Company (the "Share Option 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 or exercised in accordance with the terms of the Share Option Scheme during the nine months ended 30 September 2012. Details of movements of the share options granted under the Share Option Scheme during the period are as follows:

| Category or name of grantees | Number of shares options to subscribe for shares of the Company | | | | | Balance as at 30.09.2012 | Date of grant | Exercise period | Exercise price per share |
|--|---|---|---|-----------------------------|--------------------------|--------------------------|---------------|-----------------------|--------------------------|
| | Balance as at 01.01.2012 | Transferred to other category during the period | Transferred from other category during the period | Exercised during the period | Lapsed during the period | | | | |
| 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 | | | |
| Prof. Japhet Sebastian Law | 1,290,000 | - | - | - | - | 1,290,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK\$0.87 |
| Mr. Hui Hung, Stephen (resigned on 23 March 2012) | 490,000 | (490,000) ¹ | - | - | - | - | 30.10.2007 | 30.10.2007-29.10.2012 | HK\$2.75 |
| | 1,290,000 | (1,290,000) ¹ | - | - | - | - | 14.12.2010 | 14.12.2010-03.08.2013 | HK\$0.87 |
| | 1,780,000 | (1,780,000) | - | - | - | - | | | |
| | 43,120,000 | (1,780,000) | - | - | - | 41,340,000 | | | |
| Employees of the Group | 9,900,000 | (9,900,000) ² | - | - | - | - | 30.10.2007 | 30.10.2007-29.10.2012 | HK\$2.75 |
| | 24,700,000 | (8,350,000) ³ | - | - | - | 16,350,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK\$0.87 |
| | 34,600,000 | (18,250,000) | - | - | - | 16,350,000 | | | |
| Other participants | 4,900,000 | - | 10,390,000 | - | (490,000) | 14,800,000 | 30.10.2007 | 30.10.2007-29.10.2012 | HK\$2.75 |
| | 400,000 | - | 9,640,000 | - | (4,690,000) | 5,350,000 | 14.12.2010 | 14.12.2010-03.08.2013 | HK\$0.87 |
| | 5,300,000 | - | 20,030,000 | - | (5,180,000) | 20,150,000 | | | |
| | 83,020,000 | (20,030,000) | 20,030,000 | - | (5,180,000) | 77,840,000 | | | |

SHARE OPTION SCHEME *(Continued)*

Notes:

- 1) *Such share options were re-classified to the category of "Other Participants" upon the grantee ceased to be the director of the Company during the nine months ended 30 September 2012. According to the Share Option Scheme, such share options will be lapsed on the expiry of the three months period following the date of cessation as director of the Company.*
- 2) *Such share options were re-classified to the category of "Other Participants" during the nine months ended 30 September 2012.*
- 3) *2,100,000 share options will be lapsed on the expiry date of the three months period following the date of cessation as employees of the Group and 6,250,000 share options are re-classified to the category of "Other Participants" during the nine months ended 30 September 2012.*

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the nine months ended 30 September 2012, 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 CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CGP Code") contained in Appendix 15 to the GEM Listing Rules during the period from 1 January 2012 to 31 March 2012. The CGP Code was amended and renamed by the Stock Exchange as "Corporate Governance Code and Corporate Governance Report" (the "New CG Code") effective on 1 April 2012. The Company has also complied with the code provisions set out in the New CG Code during the period from 1 April 2012 to 30 September 2012.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of provisions 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 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 2012.

AUDIT COMMITTEE

The Group's third quarterly results for the nine months ended 30 September 2012 were unaudited. The company's audit committee (The "Audit Committee") has reviewed the 2012 unaudited third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company for, amongst other things, reviewing the unaudited third quarterly results of the Group for the nine months ended 30 September 2012.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all 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, 9 November 2012