THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Global Digital Creations Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

G·D·C

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)

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
GDC TECHNOLOGY LIMITED AND
GDC DIGITAL CINEMA NETWORK LIMITED

Independent financial adviser to the Independent Shareholders

OSK Capital Hong Kong Limited

A notice convening a special general meeting of the Company to be held at Oasis Room, 8/F., Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 2 September 2011 at 11:00 a.m. is set out on pages 84 to 85 of this Circular. Whether or not you are able to attend the meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so wish.

This Circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of posting and the website of the Company at www.gdc-world.com.

17 August 2011

* *For identification purposes only*

CHARACTERISTICS OF GEM

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

In this Circular, unless the context otherwise requires, the following expressions have the following meanings:

"associate(s)"	has the meanings ascribed thereto under the GEM Listing Rules
"Board"	the board of Directors of the Company
"Company"	Global Digital Creations Holdings Limited, an exempted company incorporated in Bermuda with limited liability, Shares of which are listed on GEM
"Completion"	completion of the Disposal
"connected person"	has the same meanings ascribed thereto under the GEM Listing Rules
"Director(s)"	director(s) of the Company
"Disposal"	the proposed sale of GDC Tech Shares and the 100% equity interest in GDC Digital Cinema Network to the Purchaser and the cancellation of the outstanding Options as at Completion pursuant to the terms and conditions of the Disposal Agreement
"Disposal Agreement"	the conditional sale and purchase agreement dated 8 July 2011 entered into among the Company, GDC Holdings and the Purchaser, as the same may be amended or modified from time to time
"Dr. Chong"	Dr. Chong Man Nang, a director and the chief executive officer of GDC Tech
"GDC Digital Cinema Network"	GDC Digital Cinema Network Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of GDC Holdings
"GDC Holdings"	GDC Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"GDC Tech"	GDC Technology Limited, a company incorporated in the British Virgin Islands and a non-wholly subsidiary of GDC Holdings and as at the Latest Practicable Date, owned as to 57.75% by GDC Holdings
"GDC Tech Group"	for the purpose of this Circular, GDC Tech, GDC Digital Cinema Network and their respective subsidiaries
"GDC Tech Shares"	ordinary shares of HK$0.10 each in the share capital of GDC Tech

"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM and any amendments thereto
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	Shareholders other than those who have material interests in the Disposal Agreement and the transactions contemplated therein
"Independent Third Party(ies)"	third party(ies) independent of the Company and connected person(s) of the Company
"Latest Practicable Date"	12 August 2011, being the latest practicable date prior to the printing of this Circular for ascertaining certain information for inclusion in this Circular
"Options"	options granted under the share option scheme adopted by GDC Tech on 19 September 2006
"OSK"	OSK Capital Hong Kong Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO and the independent financial adviser to the Independent Shareholders in relation to the Disposal Agreement and the transactions contemplated thereunder
"Other Shareholders"	holders of GDC Tech Shares including holders of Options who exercise their Options prior to Completion but excluding GDC Holdings and Dr. Chong who has confirmed to GDC Holdings that he will not participate in the Disposal
"PRC"	the People's Republic of China but excluding, for the purposes of the Disposal Agreement and this Circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	CAG Digital Investment Holdings Limited, an exempted Cayman company
"Remaining Group"	the Group excluding the GDC Tech Group
"Sale Shares"	GDC Tech Shares to be sold to the Purchaser in the Disposal

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGM"	the special general meeting of the Company to be held at Oasis Room, 8/F., Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 2 September 2011 at 11:00 a.m. to consider and, if thought fit, approve, among other things, the Disposal Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.01 each (or of such other nominal amount as shall result from a sub-division or a consolidation of such shares from time to time) in the capital of the Company
"Shareholders"	holders of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollar, the lawful currency of the United States of America
"%" or "per cent."	percentage or per centum

Unless otherwise specified in this Circular, amounts denominated in US$ have been converted, for the purpose of illustration only, into HK$ at US$1 = HK$7.79.

No representation is made that any amount in HK$ could have been or could be converted at the above rate or at any other rates or at all.

Certain English translation of Chinese names or words in this Circular are included for information purposes only and should not be regarded as the official English translation of such Chinese names or words.

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)

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

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

17 August 2011

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO GDC TECHNOLOGY LIMITED AND GDC DIGITAL CINEMA NETWORK LIMITED

INTRODUCTION

On 8 July 2011, the Company, GDC Holdings and the Purchaser entered into the Disposal Agreement pursuant to which the Purchaser conditionally agreed to purchase the Sale Shares and the 100% equity interest in GDC Digital Cinema Network. Upon Completion, the Purchaser will hold 80% of the issued share capital of GDC Tech (or such greater percentage as GDC Holdings and the Purchaser may agree), 100% of the issued share capital of GDC Digital Cinema Network and control the GDC Tech Group.

* *For identification purposes only*

The purpose of this Circular is to provide you with, among other things, further information relating to the Disposal and the Disposal Agreement, to set out the advice from OSK to the Independent Shareholders and to give you notice of the SGM.

THE DISPOSAL

On 8 July 2011, the Company, GDC Holdings and the Purchaser entered into the Disposal Agreement pursuant to which:

(a) GDC Holdings will sell, or procure the sale by any of the Other Shareholders of, and the Purchaser will purchase, such number of GDC Tech Shares as is equal to 80% of GDC Tech Shares in issue at Completion (or such greater percentage as GDC Holdings and the Purchaser may agree);

(b) the Purchaser will pay the Cancellation Fee (as defined below) to holders of the Options who have agreed to the cancellation of their Options; and

(c) the Purchaser will acquire from GDC Holdings its 100% equity interest in GDC Digital Cinema Network.

Mr. Li Shaofeng, Mr. Chen Zheng, Mr. Jin Guo Ping, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Professor Japhet Sebastian Law, who are Directors and holders of GDC Tech Shares and held, in aggregate, 22,000,001 GDC Tech Shares, representing approximately 8.82% of the entire issued share capital of GDC Tech as at the Latest Practicable Date, have confirmed to GDC Holdings that they will participate in the Disposal and sell all of GDC Tech Shares held by them to the Purchaser at Completion.

As at the Latest Practicable Date, there were 2,439,000 Options outstanding. If the Options are exercised in full prior to Completion, an aggregate of 2,439,000 GDC Tech Shares will be issued.

Under the Disposal Agreement, GDC Holdings is required to sell, or procure the sale of, 80% of the issued share capital of GDC Tech to the Purchaser. As at the Latest Practicable Date, GDC Tech is a 57.75% owned subsidiary of GDC Holdings. By structuring the Disposal Agreement in this manner, it avoided the need for the Other Shareholders to be parties to the Disposal Agreement and the protracted multi-way negotiations which could ensue as a result; while offering an opportunity for all the Other Shareholders to sell and benefit from the Disposal. It is the current intention of GDC Holdings that all the Other Shareholders may, if they elect to do so, participate in the Disposal and sell their GDC Tech Shares. GDC Holdings has discussed with most of the Other Shareholders (other than the Directors), including Greater Appeal Investments Limited, a holder of approximately 21.00% of the issued share capital of GDC Tech as at the Latest Practicable Date, the benefits to both GDC Holdings and themselves in participating in the Disposal and they, who together held approximately 25.50% of the issued share capital of GDC Tech as at the Latest Practicable Date, have confirmed that they would participate in the Disposal and sell GDC Tech Shares held by them. GDC Holdings has also discussed with the Option holder holding 2,000,000 Options, he has confirmed that he would accept the cancellation offer made by the Purchaser. As such, it is anticipated that GDC Holdings will remain as a minority shareholder of GDC Tech after Completion.

In the event that there are no Other Shareholders or insufficient Other Shareholders participating in the Disposal to make up the Sale Shares to 80% of the issued share capital of GDC Tech, unless GDC Holdings and the Purchaser otherwise agree, the Purchaser may elect not to proceed to Completion and the Company and GDC Holdings may be liable for damages for non-performance of their obligations under the Disposal Agreement. In addition, GDC Holdings have given representations and warranties in relation to the Sale Shares and the operations of the GDC Tech Group under the Disposal Agreement. However, in the event of any claim in respect of such representations and warranties, the liability of the Company and GDC Holdings in respect of such claims is capped at the total consideration to be received by GDC Holdings under the Disposal Agreement. GDC Holdings does not have any current intention to purchase any GDC Tech Shares from the Other Shareholders for resale to the Purchaser.

The key commercial rationale for the Company to procure 80% of the issued share capital of GDC Tech to be sold is that by doing so, it would be able to obtain a better pricing for the Disposal and at the same time introduce a reputable and well resourced investor such as The Carlyle Group. The Company considers that the benefits of the current structure of the Disposal outweigh the risks which are manageable as the GDC Tech Group is under the control of the Company. Furthermore, as indicated, the Company has received indication from the Directors, Greater Appeal Investments Limited and several Other Shareholders (other than the Directors), who collectively hold approximately 34.32% of the issued share capital of GDC Tech as at the Latest Practicable Date, that they would participate in the Disposal and sell alongside GDC Holdings. As such, the Company expects that it would be able to meet the requirement in respect of procuring 80% of the issued share capital of GDC Tech to be included under the Sale Shares.

In the Disposal, GDC Holdings will sell: (1) a minimum of 111,262,159 GDC Tech Shares and remain as a 13.02% shareholder of GDC Tech upon Completion, provided Dr. Chong does not sell his GDC Tech Shares, the Options are exercised in full prior to Completion and all the Other Shareholders sell their respective GDC Tech Shares in the Disposal; or (2) a maximum of 144,054,845 GDC Tech Shares if GDC Holdings sells all of its GDC Tech Shares. The exact number of GDC Tech Shares to be sold by GDC Holdings will depend on: (a) the number of Options exercised prior to Completion; (b) the number of Options cancelled prior to Completion; and (c) the number of GDC Tech Shares which will be sold by the Other Shareholders. The number of the Sale Shares cannot be determined until Completion. Under the Disposal Agreement, GDC Holdings will procure the Other Shareholders to participate in the Disposal and sell GDC Tech Shares held by them to the Purchaser. Provided Dr. Chong does not sell his GDC Tech Shares, the Options are exercised in full prior to Completion and all the Other Shareholders elect to sell their GDC Tech Shares, GDC Holdings will remain as a 13.02% shareholder of GDC Tech following Completion, unless GDC Holdings and the Purchaser otherwise agree.

The following table sets out the holders of GDC Tech Shares and Options as at the Latest Practicable Date:

Name	**GDC Tech Shares**	**Options**	**GDC Tech Shares (assuming the Options that are exercised in full)**
1. GDC Holdings	144,054,845 (57.75%)	–	144,054,845 (57.19%)
2. Mr. Li Shaofeng	2,300,000 (0.92%)	–	2,300,000 (0.91%)
3. Mr. Chen Zheng	11,883,334 (4.76%)	–	11,883,334 (4.72%)
4. Mr. Jin Guo Ping	400,000 (0.16%)	–	400,000 (0.16%)
5. Mr. Leung Shun Shan, Tony	4,780,000 (1.92%)	–	4,780,000 (1.90%)
6. Mr. Kwong Che Keung, Gordon	2,071,667 (0.83%)	–	2,071,667 (0.82%)
7. Mr. Hui Hung, Stephen	365,000 (0.15%)	–	365,000 (0.14%)
8. Professor Japhet Sebastian Law	200,000 (0.08%)	–	200,000 (0.08%)
9. Dr. Chong	17,583,332 (7.05%)	–	17,583,332 (6.98%)
10. Greater Appeal Investments Limited	52,383,580 (21.00%)	–	52,383,580 (20.80%)
11. Other connected persons of the Company (Mr. Chiu Ming Kin, a director of GDC Tech)	720,000 (0.29%)	–	720,000 (0.29%)
12. Other GDC Tech shareholders *(Note)*	12,699,334 (5.09%)	–	12,699,334 (5.04%)
13. Other Option holders *(Note)*	–	2,439,000	2,439,000 (0.97%)
Total:	249,441,092	2,439,000	251,880,092

Note: To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, such persons are Independent Third Parties.

Consideration

The fully diluted equity value of the GDC Tech Group was agreed between GDC Holdings and the Purchaser to be HK$739,928,445, which was determined with reference to the consolidated net assets of the GDC Tech Group as at 31 December 2009 and 2010, and 31 May 2011 and the prospects of the GDC Tech Group, following arm's length negotiations between GDC Holdings and the Purchaser. The aggregate consideration (including the Cancellation Fee) payable by the Purchaser for the acquisition of 80% of GDC Tech Shares in issue at Completion and the 100% equity interest in GDC Digital Cinema Network is, subject to adjustment, HK$591,942,756, which is determined based on 80% of the fully diluted equity value of the GDC Tech Group.

The purchase price per Sale Share will be determined as follows:

$$\left[\frac{a}{(b + c)} \text{ x } d - e - f \right] \text{ x } \frac{1}{d}$$

and the purchase price per Sale Share will range from approximately HK$2.82 (if the Options are exercised in full prior to Completion) to HK$2.84 (if no Options are exercised prior to Completion but are cancelled at Completion).

The cancellation fee for each unexercised Option (the "Cancellation Fee") will be determined as follows:

$$\frac{a}{(b + c + g)} - h - \frac{f}{(g + d)}$$

where
a = the fully diluted equity value of the GDC Tech Group
b = the number of GDC Tech Shares in issue as at Completion
c = the number of GDC Tech Shares which would be issued on the exercise of any Options which remain outstanding at Completion
d = the number of the Sale Shares
e = the total Cancellation Fees
f = HK$23,370,000, being the consideration for the 100% equity interest in GDC Digital Cinema Network
g = the number of Options that the Purchaser pays the Cancellation Fees to cancel at Completion
h = the exercise price under the relevant Option

The consideration for the 100% equity interest in GDC Digital Cinema Network was US$3 million, or equivalent to approximately HK$23,370,000, which was determined with reference to the consolidated total assets of GDC Digital Cinema Network and its subsidiaries as at 31 December 2009 and 2010, and 31 May 2011 and the prospects of the GDC Digital Cinema Network and its subsidiaries, following arm's length negotiations between GDC Holdings and the Purchaser.

Consideration for the Sale Shares (including the consideration for GDC Tech Shares to be sold by the Other Shareholders) and the Cancellation Fee will be paid by cheque or in such other manner as may be agreed between GDC Holdings and the Purchaser at Completion. If adjustment to the consideration for the Sale Shares and the Cancellation Fee is required to be made under the Disposal Agreement following Completion, GDC Holdings will, and will procure the Other Shareholders who have sold GDC Tech Shares and the holders of the Options who have received the Cancellation Fees to, repay to the Purchaser the excess of the amount paid to them over the adjusted amount.

As disclosed above, under the Disposal Agreement, GDC Holdings is responsible for procuring: (i) the Other Shareholders to sell GDC Tech Shares held by them; and (ii) certain holders of the Options to either exercise their Options and/or agree to the cancellation of their Options on Completion in consideration for payment of the Cancellation Fee. Therefore, the consideration for the sale of GDC Tech Shares by the Other Shareholders and the Cancellation Fee form part of the consideration under the Disposal Agreement.

Adjustment to consideration and dividend

Under the Disposal Agreement, a statement setting out the net cash and working capital of the GDC Tech Group as at Completion will be prepared as soon as practicable and by no later than 10 business days following Completion. The net cash of the GDC Tech Group is determined by adding the cash and cash equivalents of the GDC Tech Group and intra-group indebtedness and deducting therefrom external indebtedness and certain unsettled reserve or provision of tax of the GDC Tech Group. Working capital of the GDC Tech Group is determined by adding the total inventories and receivables and deducting therefrom payables and accrued liabilities of the GDC Tech Group.

If the net cash of the GDC Tech Group as at Completion is determined to be less than HK$25,000,000 (or, if it is equal to or greater than HK$25,000,000, the net cash located outside of the PRC is less than HK$12,500,000), the fully diluted equity value of the GDC Tech Group will be adjusted downwards by an amount equal to the deficit on a dollar-to-dollar basis and the purchase price per Sale Share and the Cancellation Fee will be adjusted accordingly.

Under the Disposal Agreement, GDC Tech may upon or prior to the date of Completion declare a dividend to the shareholders of GDC Tech on the register as at the close of business on the day immediately preceding Completion in an aggregate amount not exceeding the lesser of: (i) the amount by which the net cash of the GDC Tech Group as at Completion exceeds HK$25,000,000; and (ii) the amount by which the net cash of the GDC Tech Group as at Completion located outside of the PRC exceeds HK$12,500,000.

Conditions precedent

Completion of the Disposal will be conditional upon:

(a) the passing by the requisite majority of the Company's members at the SGM of such resolutions as may be necessary in accordance with the GEM Listing Rules to approve, implement and effect the sale of the Sale Shares and 100% equity interest in GDC Digital Cinema Network to the Purchaser and of the transactions contemplated by the Disposal Agreement;

(b) the full and final settlement of all indebtedness owing by a member of the GDC Tech Group to any of GDC Holdings or its subsidiaries (other than the GDC Tech Group) and vice versa (including all interest thereon);

(c) Dr. Chong entering into an employment agreement with GDC Tech on terms no less favourable to Dr. Chong than his current terms of employment but otherwise in such form and substance satisfactory to the Purchaser to take effect on and subject to Completion (Note: The Purchaser considers that the continuous service of Dr. Chong with the GDC Tech Group is instrumental to its future development and, therefore, requires that it is a condition to Completion that Dr. Chong will enter into an employment agreement with GDC Tech);

(d) a member of the GDC Tech Group entering into a preferential leasing agreement with 環球數碼媒體科技研究(深圳)有限公司 (Institute of Digital Media Technology (Shenzhen) Limited), a wholly-owned subsidiary of the Company, in respect of the lease of the Shenzhen GDC Holdings Building (as defined in the Disposal Agreement) for the benefit of the GDC Tech Group at a price equal or lower to the lesser of: (i) the current rent; and (ii) the rent charged to other subsidiaries of the Company for a term of three years in the form which complies with PRC laws, to take effect on and subject to Completion (Note: This leasing agreement is to formalise the current use of the relevant premise used by the GDC Tech Group. If this agreement is not entered into, the operations of the GDC Tech Group after Completion may be disrupted. Accordingly, the Purchaser has required this as a condition to Completion); and

(e) the Company and GDC Tech entering into the licence agreement in such form and substance satisfactory to the Purchaser granting GDC Tech a licence on a world-wide, exclusive, perpetual, and sub-licensable basis with respect to the use of GDC Intellectual Property (as defined in the Disposal Agreement) in connection with the manufacture, promotion, marketing, sale, use and distribution (or any of those activities) of media delivery or display related equipment (and restricting the Group in relation to the same), to take effect on and subject to Completion (Note: This relates to the use of the GDC Intellectual Property in relation to the current business of the GDC Tech Group. If this agreement is not entered into, the operations of the GDC Tech Group after Completion may be disrupted. Accordingly, the Purchaser has required this as a condition to Completion).

The Purchaser may waive conditions (b) to (e) above (either in whole or in part) at any time by giving notice to GDC Holdings.

GDC Holdings will use all commercially reasonable endeavours to procure (so far as it is so able) that each of the conditions is satisfied on or before 30 September 2011 or such other date as GDC Holdings and the Purchaser may agree. As at the Latest Practicable Date, none of the conditions precedent listed above have been satisfied.

Completion

Completion will take place on the fifth Business Day (as defined in the Disposal Agreement) after the date on which the last of the above conditions precedent to be satisfied or waived as the case may be is satisfied or so waived (or on such other date as GDC Holdings and the Purchaser may agree).

Upon Completion, members of the GDC Tech Group will cease to be subsidiaries of the Company and the results of the GDC Tech Group will no longer be consolidated into the consolidated financial statements of the Company.

INFORMATION ON THE GDC TECH GROUP

GDC Tech and its subsidiaries are principally engaged in the provision of computing solutions for digital content distribution and exhibitions. GDC Digital Cinema Network and its subsidiaries are principally engaged in the deployment of digital cinema network.

Set out below is the summary of key consolidated financial information of GDC Tech and its subsidiaries prepared under the International Financial Reporting Standards for the two years ended 31 December 2009 and 2010, and the six months ended 30 June 2011:

	For the year ended 31 December		**For the six months ended 30 June**
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Revenue	334,342	567,006	303,385
Profit before tax	51,502	170,451	103,582
Profit attributable to shareholders	45,773	155,218	87,634

	As at 31 December		**As at 30 June**
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Net assets	195,488	367,229	459,033
Total assets	290,788	581,339	652,640

Set out below is the summary of key consolidated financial information of GDC Digital Cinema Network and its subsidiaries prepared under the Hong Kong Financial Reporting Standards for the two years ended 31 December 2009 and 2010, and the six months ended 30 June 2011:

	For the year ended 31 December		For the six months ended 30 June
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)
Revenue	–	4,330	1,859
Loss before tax	(5,291)	(6,149)	(3,710)
Loss attributable to shareholders	(5,291)	(6,149)	(3,710)

	As at 31 December		As at 30 June
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)
Net liabilities	(6,927)	(13,076)	(16,786)
Total assets	26,064	51,528	61,683

INFORMATION ON THE PURCHASER

The Purchaser is an affiliate of the global alternative asset manager The Carlyle Group which as of 31 March 2011 managed approximately US$107.6 billion of assets and 84 funds. The Purchaser is managed by the Carlyle Asia Growth Capital Group (CAGP), a sector-agnostic growth capital fund that invests in high growth companies in key Asian markets through a team of local professionals from Beijing, Hong Kong, Mumbai, Shanghai and Seoul. CAGP manages four funds with an aggregate committed capital of approximately US$2 billion.

The Carlyle Group invests corporate private equity, real assets and global market strategies in Africa, Asia, Australia, Europe, North America and South America focusing on aerospace & defense, consumer & retail, energy & power, financial services, healthcare, industrial, infrastructure, technology & business services, telecommunications & media and transportation. Carlyle employs more than 1,000 people in 20 countries. Since 1987, the firm has invested approximately US$44.8 billion in 408 corporate private equity transactions.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

REASON FOR THE DISPOSAL

The Group is principally engaged in computer graphic ("CG") creation and production, digital content distribution and exhibitions, deployment of digital cinema network, computer graphic training and cultural park.

The Directors consider that the Disposal represents a good opportunity for the Group to realise its investment in the GDC Tech Group at a fair and reasonable price and enables the Group to further strengthen its current cash flows and liquidity positions and increase the general working capital and cash resources for the other businesses of the Group and for any future potential investment opportunities that may arise from time to time.

Subject to Completion, the Company and GDC Holdings have undertaken to the Purchaser that the Remaining Group will not engage in any businesses currently engaged by GDC Tech, GDC Digital Cinema Network and their respective subsidiaries.

The terms of the Disposal Agreement are determined after arm's length negotiations between the parties and in the ordinary and normal course of business. The Directors (including the Independent non-executive Directors) believe that the terms of the Disposal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS AND FINANCIAL EFFECT OF THE DISPOSAL

The Company estimates that the gross proceeds from the sale of GDC Tech Shares by GDC Holdings in the Disposal will range from approximately HK$313.8 million to HK$409.1 million and the net proceeds from such sale will range from approximately HK$302.3 million to HK$394.8 million, depending on the number of GDC Tech Shares that it will sell in the Disposal and the purchase price per Sale Share. As disclosed above, the exact number of GDC Tech Shares to be sold by GDC Holdings will depend on: (a) the number of Options exercised prior to Completion; (b) the number of Options cancelled prior to Completion; and (c) the number of GDC Tech Shares which will be sold by the Other Shareholders. As disclosed above, the purchase price for Sale Share will depend on: (a) the number of Options exercised prior to Completion; and (b) the number of Options cancelled prior to Completion.

As set out in Appendix III to this Circular, assuming the Disposal had taken place on 30 June 2011, the Group would recognise an unaudited pro forma gain on disposal of approximately HK$301.6 million from the sale of the Sale Shares. However, the Shareholders should note that the actual financial effects of the sale of the Sale Shares will be determined mainly based on the consolidated net assets of GDC Tech and its subsidiaries and the shareholding in GDC Tech to be disposed of immediately upon Completion.

The Company estimates that the gross and net proceeds from the sale of the 100% equity interest in GDC Digital Cinema Network will be approximately HK$23.4 million and HK$22.7 million, respectively. As set out in Appendix III to this Circular, assuming the Disposal had taken place on 30 June 2011, the Group would recognise an unaudited pro forma gain on disposal of approximately HK$39.5 million from the sale of 100% equity interest in GDC Digital Cinema Network. However, the Shareholders should note that the actual financial effects on the sale of GDC Digital Cinema Network will be determined mainly based on the consolidated net liabilities of GDC Digital Cinema Network and its subsidiaries immediately upon Completion.

The entire net proceeds from the Disposal to be received by the Company ranging from approximately HK$325.0 million to HK$417.5 million. It is expected that approximately HK$27 million will be used by the Company for the repayment of bank loans, approximately HK$23 million will be used by the Company for general working capital purpose and the balance of the net proceed will be used to finance the construction works of the redevelopment of various phases of 珠影文化產業園 (Pearl River Film Cultural Park*) once the detailed construction plan and budget are approved, and for any future potential investment opportunities that may arise from time to time. The Company has not identified any specific project for investment at the Latest Practicable Date.

On 30 March 2010, the Group acquired 68% of the registered capital of 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*, "Guangdong Shishang") for a consideration of RMB56,060,000 (equivalent to approximately HK$63,705,000). The acquisition was completed on 20 April 2010.

Guangdong Shishang entered into a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) with 珠江電影製片有限公司 (Pearl River Film Production Company Limited*, "Pearl River Film Production") to jointly redevelop the Pearl River Film Cultural Park, where is located at Nos. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC (the "Framework Agreement"). Pearl River Film Production, as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to Guangdong Shishang, in return for predetermined monthly payment from Guangdong Shishang for a term up to 31 December 2045. Guangdong Shishang is responsible for the design, financing, construction and operation of the Pearl River Film Cultural Park and the funding of the entire construction project. Upon the expiration of the Framework Agreement, Guangdong Shishang has to return all properties to Pearl River Film Production.

As announced by the Company in its announcement dated 11 January 2011, the construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park, with an aggregate cost of approximately HK$92.0 million has commenced. Such construction work is expected to be completed by the end of 2011. The detailed construction plan for the other phases of the redevelopment of the Pearl River Film Cultural Park has been prepared and submitted to the relevant PRC authorities for approval. The entire construction for the redevelopment is expected to be completed in the next 3 to 5 years and the redeveloped Pearl River Film Cultural Park will, subject to final approval by the relevant PRC authorities, have a planned total floor area exceeding 200,000 square metres. Because the planned total floor area of the project is still subject to approval by the relevant PRC authorities, the Company cannot determine the total construction cost for the project as at the Latest Practicable Date. Based on the total floor area of 200,000 square meters, it is estimated that the construction cost of the Pearl River Film Cultural Park will be more than HK$1,300 million. The Company will make further announcement once the final development plan of the Pearl River Film Cultural Park and the final projected construction cost of the project have been determined.

After Completion, the Remaining Group will continue to engage in the business of computer graphic ("CG") creation and production, CG training courses and cultural park, which will warrant a sufficient level of operations of the Remaining Group. The Remaining Group currently employs approximately 510 full time employees and has not entered into any arrangement or undertaking to dispose of or downsize the businesses of the Remaining Group after Completion. Detailed information about the future prospect of the Remaining Group is set out in "Appendix I – Financial Information of the Group" to this Circular.

The Directors are therefore of the view that after Completion, the Remaining Group will continue to have a significant level of operations in CG businesses and cultural park and possess tangible assets of sufficient value.

As regards the financial effects of the Disposal, based on the Group's audited consolidated statement of comprehensive income for the year ended 31 December 2010, the profit attributable to owners of the Company was approximately HK$31.4 million. As set out in Appendix III to this Circular, assuming the Disposal had taken place on 1 January 2010, the unaudited pro forma consolidated loss before gain on the Disposal would amount to approximately HK$54.9 million. This loss was mainly due to the following:

(a) a one-off share-based payment expense of approximately HK$18.6 million was recognised in respect of the share options granted by the Company on 14 December 2010;

(b) as the international animation production industry was depressed and there was less investment in new projects, the revenue from the CG creation and production business of the Remaining Group decreased significantly in that year. Besides, the intellectual property assets which the Remaining Group invested were in production stage in that year and no revenue was generated from them yet;

(c) the construction of the Remaining Group's headquarters building in Shenzhen was completed and the businesses of the Shenzhen subsidiaries were relocated to such building during the fourth quarter of 2010. The Remaining Group incurred more costs on relocation, depreciation and interests in relation to the Shenzhen building for that year; and

(d) after the acquisition of 68% equity interest in Guangdong Shishang, the Remaining Group was still at the stage of preparing the detailed construction plan and budget for the redevelopment of the Pearl River Film Cultural Park and no revenue was generated from such entity during that year.

Further information about the management discussion and analysis of the results and operations of the Remaining Group is set out in "Appendix I – Financial Information of the Group" to this Circular.

Based on the Group's unaudited consolidated statement of financial position as at 30 June 2011, the Group's total assets and total liabilities were approximately HK$1,086.9 million and HK$449.8 million, respectively. As set out in Appendix III to this Circular, assuming the Disposal had taken place on 30 June 2011, the unaudited pro forma consolidated total assets and total liabilities of the Group as adjusted by the effect of the Disposal would amount to approximately HK$1,057.9 million and HK$265.6 million, respectively.

Based on the Group's audited consolidated statement of cash flows for the year ended 31 December 2010, the net increase in cash and cash equivalents and cash and cash equivalents at end of the year were approximately HK$64.0 million and HK$235.7 million, respectively. As set out in Appendix III to this Circular, assuming the Disposal had taken place on 1 January 2010, the unaudited pro forma consolidated net increase in cash and cash equivalents and cash and cash equivalents at end of the year of the Group as adjusted by the effect of the Disposal would range from approximately HK$249.6 million to HK$342.1 million, and from approximately HK$417.2 million to HK$509.7 million, respectively.

The ratio of the unaudited pro forma consolidated bank balances and cash to total assets and net assets of the Remaining Group as at 30 June 2011 as adjusted by the effect of the Disposal would range from approximately 39% to 48%, and from approximately 53% to 64%, respectively. The cash level will be reduced substantially after Completion as the Group will mainly deploy the net proceeds from the Disposal to meet potential capital expenditure relating to the construction works for the redevelopment of various phases of the Pearl River Film Cultural Park. The Directors are therefore of the view that after Completion, the Group will satisfy the requirement under Rule 19.82 of the GEM Listing Rules.

Further information which illustrates the financial effects of the respective transactions contemplated under the Disposal Agreement on the Group's financial information is set out in "Appendix III – Unaudited Pro Forma Financial Information of the Remaining Group" to this Circular.

GEM LISTING RULES IMPLICATIONS

The relevant percentage ratios under Rule 19.07 of the GEM Listing Rules in respect of GDC Holdings' sale of GDC Tech Shares and the 100% equity interest in GDC Digital Cinema Network in the Disposal exceed 75%. GDC Holdings' sale of GDC Tech Shares and the 100% equity interest in GDC Digital Cinema Network in the Disposal constitute a very substantial disposal for the Company under the GEM Listing Rules.

As at the Latest Practicable Date, Mr. Li Shaofeng, Mr. Chen Zheng, Mr. Jin Guo Ping, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Professor Japhet Sebastian Law are the Directors and are therefore connected persons of the Company. The Directors held GDC Tech Shares and have confirmed to GDC Holdings that they will participate in the Disposal and sell, together with GDC Holdings, their GDC Tech Shares, which will form part of the Sale Shares under the Disposal Agreement, to the Purchaser at Completion. While not being parties to the Disposal Agreement, the Disposal Agreement facilitates the sale of GDC Tech Shares by the Other Shareholders (including the Directors and certain other connected persons of the Company) to the Purchaser and thereby allowing them to benefit from the arrangement. Accordingly, GDC Holdings' sale of GDC Tech Shares in the Disposal constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the approval by the Independent Shareholders at the SGM by way of poll.

Rule 17.47(6)(a) of the GEM Listing Rules provides that in relation to any connected transaction that are subject to independent shareholders' approval pursuant to the GEM Listing Rules, an independent board committee made up of only the independent non-executive Directors shall be formed to advise the Shareholders as to whether the terms of the transaction are fair and reasonable and whether such a transaction is in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote. Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Professor Japhet Sebastian Law are the Independent non-executive Directors. As each of Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Professor Japhet Sebastian Law have confirmed to GDC Holdings that they will participate in the Disposal and sell their GDC Tech Shares to the Purchaser at Completion, they are considered to have a material interest in the transaction and accordingly, no independent board committee can be formed. OSK, an independent financial adviser, has been appointed by the Board to advise the Independent Shareholders in this regard.

SGM

The Company will convene the SGM at which resolution will be proposed to the Independent Shareholders to consider and, if thought appropriate, to approve the Disposal Agreement and the transactions contemplated thereunder. All Shareholders who hold GDC Tech Shares or Options and their associates are required to abstain from voting on the resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the SGM.

Set out on pages 84 to 85 is a notice convening the SGM to be held at Oasis Room, 8/F., Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 2 September 2011 at 11:00 a.m. at which relevant resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Disposal.

The register of members of the Company will be closed from Thursday, 1 September 2011 to Friday, 2 September 2011, both dates inclusive, during which period, no transfer of Shares will be registered. In order to qualify for attending and voting at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 31 August 2011.

In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be lodged at the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Board considers that the terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular. Your attention is also drawn to the letter of advice from OSK on pages 18 to 37 which contains its opinion on the terms of the Disposal Agreement and its recommendation to the Independent Shareholders on how to vote for the resolutions to be proposed at the SGM.

By Order of the Board
Global Digital Creations Holdings Limited
Li Shaofeng
Chairman

The following is the text of the letter of advice from OSK Capital Hong Kong Limited, the independent financial adviser to the Independent Shareholders for the purpose of incorporation into the Circular.

OSK Capital Hong Kong Limited
僑豐融資有限公司
Subsidiary of OSK Investment Bank Berhad, Malaysia

12/F, World-Wide House
19 Des Voeux Road Central
Hong Kong

17 August 2011

The Independent Shareholders
Global Digital Creations Holdings Limited

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
GDC TECHNOLOGY LIMITED AND
GDC DIGITAL CINEMA NETWORK LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Shareholders in connection with the Disposal, details of which are set out in the circular of the Company dated 17 August 2011 (the "Circular") of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

On 8 July 2011, the Company entered into the Disposal Agreement in respect of: (i) the Group's interest in the issued share capital of GDC Tech; and (ii) 100% of the issued share capital of GDC Digital Cinema Network. As there are other shareholders of GDC Tech, who are Directors, will also sell their interests in GDC Tech to the Purchaser at the same terms, the Disposal constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The Disposal is subject to the Independent Shareholders' approval at general meeting by way of poll. No independent board committee will be formed to advise the Independent Shareholders as all independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law, are interested in the Disposal Agreement. The Shareholders who sell their GDC Tech Shares and/or agree to cancel their Options in the Disposal are materially interested in the transactions contemplated under the Disposal Agreement. According to the GEM Listing Rules, those interested Shareholders and their respective associates and any Shareholders who are involved in, or interested in the Disposal will abstain from voting in respect of the ordinary resolution relating to the Disposal.

OSK Capital Hong Kong Limited has been appointed as the independent financial adviser to advise the Independent Shareholders as to whether the terms of the Disposal and the Disposal Agreement are fair and reasonable and whether the Disposal is on normal commercial terms, in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the announcement of the Company dated 11 July 2011 (the "Announcement"), the Circular and those supplied or made available by the management of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 17.92 of the GEM Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, the Purchaser and their respective associates.

PRINCIPAL FACTORS CONSIDERED

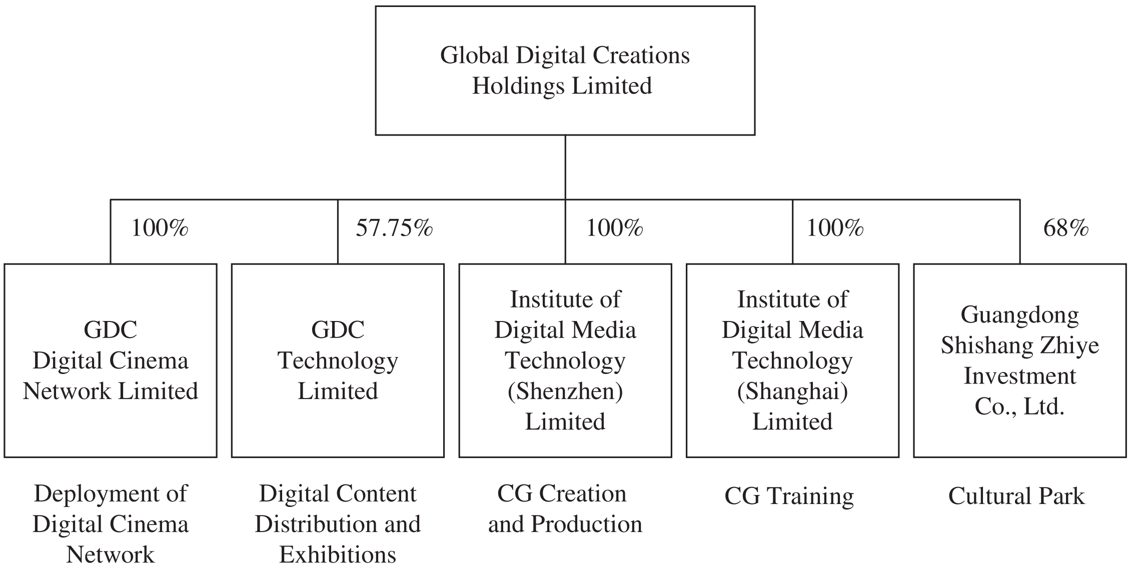
In formulating our opinion on the Disposal, we have taken into consideration the following principal factors:

Background of the Group

The Group has five major business units, namely

- deployment of digital cinema network;
- digital content distribution and exhibitions;
- computer graphics ("CG") creation and production;
- CG training; and
- cultural park.

The diagram below summaries the structure of the Group as at the Latest Practicable Date:



The table below sets out the revenue and segment results contribution from each business segments for the two years ended 31 December 2009 and 2010.

	For the year ended 31 December							
	2010				**2009**			
	Revenue		**Segment results**		**Revenue**		**Segment results**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Deployment of digital cinema network	8,128	1.4%	1,240	0.9%	4,703	1.2%	845	1.6%
Digital content distribution and exhibitions	539,971	92.5%	164,463	114.1%	302,371	78.9%	46,060	88.2%
Subtotal	548,099	93.9%	165,703	115.0%	307,074	80.1%	46,905	89.8%
CG creation and production	12,997	2.2%	(21,193)	(14.7%)	57,012	14.9%	209	0.4%
CG training courses	22,135	3.8%	4,915	3.4%	19,031	5.0%	5,117	9.8%
Cultural park	788	0.1%	(5,302)	(3.7%)	–	0.0%	–	0.0%
Total	584,019	100.0%	144,123	100.0%	383,117	100.0%	52,231	100.0%

Deployment of digital cinema network and digital content distribution and exhibitions

The deployment of digital cinema network and the digital content distribution and exhibitions are together the most significant business units of the Group in terms of revenue and segment results contribution. These two segments can be viewed as the digital cinema business of the Group.

The results of these two business units in the past two years were mainly affected by the development and popularization of 3D movies worldwide which require digital contents. The major products of these business segments of the Group are digital cinema servers. The market trend of 3D film development has led to an increase in the demand for digital film distribution and exhibition equipment. In 2010, the Group was one of the leading suppliers which also successfully developed new equipment in response to rapid development of the digital content distribution and exhibition technology.

In 2006, the Group entered into a cooperation agreement with China Film Group Corporation ("China Film") with a view to jointly promoting digital cinema in the PRC. China Film was the largest importer of foreign films in the PRC. A joint venture was established between the Group and China Film. It was proposed that the joint venture would acquire digital cinema equipment from the Group. However, in 2009, after the global financial crisis, the Group then decided to discontinue the joint venture and the related cooperation with China Film given the substantial capital required. This has affected the pace of development of the Group's digital cinema business in the PRC.

According to statistics released by the State Administration of Radio Film Board of Statistics, as at the end of December 2010, the number of movie screens increased to over 6,200 and ranked third in the world, only behind the USA and India. The PRC is one of the major markets of the Group. In the PRC, the Group's products have been deployed in more than 25 provinces. The Group owns its own manufacturing facilities in Hong Kong and Shenzhen. It is expected the number of movie screen in China will continue to grow.

The USA has the largest number of movie screens in the world and is another significant market of the Group. To further explore this market, the Group has set up offices in the USA. The Group is also exploring other markets including Australia, Europe, Japan and Latin America. We understand from the Company that, however, it is not an easy task to penetrate into the USA and Latin America market. Some major competitors have already launched products which satisfy the Digital Cinema Initiatives Standards ("DCI Standards") whilst the Group has yet to obtain certificate. DCI Standards are set by an organisation jointly formed by a number of studios in the USA, including Metro-Goldwyn-Mayer, Paramount Pictures, Sony Pictures Entertainment, 20th Century Fox, Universal Studios, The Walt Disney Company and Warner Bros. This has cast significant constraint on the development of the Group's digital cinema business in the USA.

Over the years, the Group, through its investment in GDC Tech, has developed itself into a major supplier of cinema servers in Asia and a leading provider of cinema servers worldwide, serving its customers through offices in the US, Singapore, Hong Kong and China.

The Group, through its investment in GDC Digital Cinema Network, holds Virtual Print Fee ("VPF") agreements with major US studios. VPF is designed as a means to finance the purchase of equipment for converting cinemas using traditional analog exhibitions into digital cinemas. The basic premise is that a deployment entity, i.e. GDC Digital Cinema Network, pays a portion of the cost of the equipment up front and then recoups the cost of the equipment over time through payments from distributors upon release of digital contents. The Group has signed up with two major exhibitors in Hong Kong to participate in the VPF arrangements, several exhibitors in Japan and the USA. The deployment of digital cinema network through the VPF arrangements help promote the sale of digital content distribution and exhibition equipment of the Group.

The other businesses of the Group

The CG businesses

Apart from the digital cinema business, comprising the digital content distribution and exhibitions and deployment of digital cinema network, the Group is also principally engaged in CG creation and production, CG training and development and operation of the Pearl River Film Cultural Park (the "Cultural Park").

Among the above other businesses of the Group, CG creation and production and CG training have been a part of the core businesses of the Group. We understand from the Company that the market of CG contents has been volatile. To combat market competition, the Group has started to produce 3D animation programmes and invested in its own traditional and CG animation intellectual property assets. The Company has informed us that the Group currently has two 3D-animated films which are currently in the post-production stages and one of them is planned to be released later this year; one CG-animated television series which are close to completion and the Group has appointed its agent for the international distribution; and one traditional-animated television series which have been completed and are being distributed both in the domestic and international markets.

The Group also provides training courses in relation to CG production, online games and other games production. As at the Latest Practicable Date, the Group had training centres in Shanghai, Shenzhen, Wuxi, Chongqing and Guangzhou.

The Cultural Park

In 2010, the Group acquired a 68% interest in Guangdong Shishang Zhiye Investment Co., Ltd. ("Guangdong Shishang"), which has entered into a framework agreement with Pearl River Film Production Company Limited ("Pearl River Film Production") to jointly redevelop the Cultural Park. It is proposed that the Cultural Park be redeveloped into a commercial complex comprising cinema, shops and restaurants, and a new multi-stories office tower. Under the framework agreement, Guangdong Shishang will finance the redevelopment cost of the Cultural Park and will entitle to a leasing right of the redeveloped Cultural Park for a term up to 31 December 2045. Phase 1 of the redevelopment project, which mainly comprises restaurant and dining area, has commenced with an estimated total construction cost of RMB78.17 million. It is preliminary estimated that the total redevelopment project will be completed in the next 3 to 5 years at a total cost of over HK$1.3 billion.

The Cultural Park is located at Nos. 352 and 354, Xin Gang Zhong Road, Guangzhou, the PRC and is owned by Pearl River Film Production. It is adjacent to the Kecun station of the Guangzhou Metro in Haizhu District. Based on a publication of the Haizhu District Statistic Bureau, the Haizhu District government has been driving hard to promote economic growth in the district. In 2010, the service sector, wholesale and retail sector and property sector were the three most important industry sector of the district in terms of gross domestic products ("GDP") accounted for approximately 33.0%, 17.2% and 13.7% respectively and amounted to RMB23.5 billion, RMB12.2 billion and RMB9.7

billion respectively. We understand from the Company that the redevelopment of the Cultural Park will have a commercial area, a cultural entertainment area and a film production and development area, including a cinema, shopping mall, restaurant and dining area, and office building. The GDP of the wholesale and retail sector in Haizhu increased by 27.8% in 2010 and that of the hospitality and restaurant sector increased by 4.5%. This trend, if continues, will generate more demand for floor space for retail, leisure and entertainment.

The Disposal

Subject to the satisfaction or waiver (in respect of certain applicable conditions) of the conditions precedent to the Disposal Agreement, the Group will dispose of its interest in GDC Tech and GDC Digital Cinema Network to the Purchaser.

The Purchaser is an affiliate of The Carlyle Group. The Carlyle Group is a global asset management firm, specializing in private equity, based in Washington, D.C. The Carlyle Group operates in four business areas: corporate private equity, real assets, market strategies and fund-of-funds. In its 2010 annual report, The Carlyle Group reported assets in excess of US$150 billion under management. The Carlyle Group has more than 1,000 corporate and real estate investment in its global portfolio. One of its current investments is in AMC Entertainment, Inc, which is one of the leading film exhibition companies. Neither the Purchaser nor the Carlyle holds any shares in the Company or in GDC Tech.

The Group is currently holding 57.75% of the issued share capital of GDC Tech and the entire issued share capital of GDC Digital Cinema Network. Under the Disposal, the Group may sell: (1) 44.73% to 57.75% of the issued capital of GDC Tech; and (2) the entire issued capital of GDC Digital Cinema Network to the Purchaser. The amount of shares in GDC Tech which the Group may sell to the Purchaser depends on the amount of Options which are exercised prior to Completion. As a term of the Disposal Agreement, the Group has to procure: (1) Dr. Chong not to sell his holding in the GDC Tech Shares; and (2) the Other Shareholders to sell their shareholding interests in GDC Tech to the Purchaser at the same terms as the Group so that the number of GDC Tech Shares to be sold to the Purchaser will equal to 80% of GDC Tech Shares in issue (or such larger percentage as GDC Holdings and the Purchaser may agree). We understand from the Company that this is a prerequisite made by the Purchaser for the Disposal to take place. As at the Latest Practicable Date, some of the shareholders of GDC Tech, including Mr. Li Shaofeng, Mr. Chen Zheng, Mr. Jin Guo Ping, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law, who together hold 8.82% of the GDC Tech Shares in issue have confirmed that they will sold their holding in the GDC Tech Shares to the Purchaser. The Group will need to procure the sale of a further of 13.43% of the GDC Tech Shares in issue to the Purchaser. We understand that the Company has talked to most of the Other Shareholders, including Greater Appeal Investments Limited. Some of the Other Shareholders, which together, hold more than 25% of the GDC Tech Shares in issue have confirmed to the Company that they will particulate in the Disposal. The Company is confident that it will be able to satisfy this term of the Disposal Agreement. However, if the Company fails to satisfy this term, the Company may be liable to any damage of the Purchaser as a result of the Company's non-performance of its obligation under the Disposal Agreement. The table below sets out the shareholding of GDC Tech as at the Latest Practicable Date.

Name	GDC Tech Shares	%	Options	GDC Tech Shares (assuming that the Options are exercised in full)	%
GDC Holdings	144,054,845	57.75%	–	144,054,845	57.19%
Mr. Li Shaofeng	2,300,000	0.92%	–	2,300,000	0.91%
Mr. Chen Zheng	11,883,334	4.76%	–	11,883,334	4.72%
Mr. Jin Guo Ping	400,000	0.16%	–	400,000	0.16%
Mr. Leung Shun Shan, Tony	4,780,000	1.92%	–	4,780,000	1.90%
Mr. Kwong Che Keung, Gordon	2,071,667	0.83%	–	2,071,667	0.82%
Mr. Hui Hung, Stephen	365,000	0.15%	–	365,000	0.14%
Professor Japhet Sebastian Law	200,000	0.08%	–	200,000	0.08%
Dr. Chong	17,583,332	7.05%	–	17,583,332	6.98%
Greater Appeal Investments Limited	52,383,580	21.00%	–	52,383,580	20.80%
Other connected persons of the Company	720,000	0.29%	–	720,000	0.29%
Other GDC Tech shareholders *(Note)*	12,699,334	5.09%	–	12,699,334	5.04%
Option holders *(Note)*	–	0.00%	2,439,000	2,439,000	0.97%
Total	249,441,092	100.00%	2,439,000	251,880,092	100.00%

Note: To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, such persons are Independent Third Parties. Most holders of the Options are employees of the Company and the GDC Tech Group.

There are Options outstanding which carry out to subscribe for 2,439,000 new GDC Tech Shares at a price of HK$2.0 per share. We understand from the Company that most of the Options are held by employees of GDC Tech and its subsidiaries. Under the Disposal Agreement, the Company has agreed to procure that a holder holding 2,000,000 Options to exercise such Options prior to Completion or to accept the cancellation offer made by the Purchaser. We understand from the Company that such Option holder has confirmed to the Company that he will accept the cancellation offer made by the Purchaser.

If the number of GDC Tech Shares held by the Group and by those Other Shareholders who will participate in the Disposal exceeds 80% of the GDC Tech Shares in issue, it is the intention of the Company that it will allow such Other Shareholder to sell their holding in the GDC Tech Shares to the Purchaser. Assuming the Options are exercised in full and all the Other Shareholders agree to sell their GDC Tech Shares to the Purchaser, then the Group will only sell 111,262,159 GDC Tech Shares it held to the Purchaser and will retain a 13.02% interest in GDC Tech after the Disposal. The credentials of The Carlyle Group and its investment in the cinema and media entertainment industry in the USA may probably help the GDC Tech Group to further develop its business plan in the USA as well as Latin America. We consider that retaining a minority interest in the GDC Tech after the Disposal, in order to facilitate completion of the Disposal, are acceptable circumstances.

We understand that the above is the commercial arrangement agreed between the Company and the Purchaser. Given that the Company has communicated with most of the Other Shareholders and the Option holders and based on the confirmation it has obtained from the Other Shareholders and the Option holders that it will be able to procure a sale of 80% of GDC Tech Shares in issue to the Purchaser, and this is important as to facilitate the sale of the Group's interest in GDC Tech under the Disposal Agreement, we agree with the Company that this arrangement is fair and reasonable to the Company.

Consideration for the Disposal

Calculation of the consideration receivable

The consideration payable to the Group is to be calculated based on the number of GDC Tech Shares that it will sell and a fully diluted valuation of GDC Tech of HK$716,558,445 (US$92,000,000).

The formula for calculating the consideration receivable by the Company in respect of the disposal of GDC Tech Shares under the Disposal Agreement (the "Formula") is set out in the paragraph headed "Consideration" in the letter from the Board in the Circular (the "Letter from the Board"). The table below sets out the consideration in respect of the disposal of GDC Tech Shares that the Group may receive under different circumstances based on the assumptions stated below.

	Number of GDC Tech Shares sold by the Group	Percentage of GDC Tech Shares sold by the Group on Completion	Percentage of GDC Tech Shares sold by the Group on Completion (on a fully diluted basis)	Consideration per GDC Tech Share *HK$*	Consideration receivable by the Group *HK$' million*	Number of GDC Tech Shares sold by the Other Shareholders	Consideration receivable by Other Shareholders *HK$' million*	Consideration payable to holders of Options who have accepted the cancellation offer *HK$' million*	Total consideration payable by the Purchaser *HK$' million*
Scenario 1: Assuming that only 2,000,000 Options are exercised, no other Options are exercised or cancelled, and the number of GDC Tech Shares that Other Shareholders sell to the Purchaser together with the number of GDC Tech Shares held by the Group represents 80% of the issued share capital of GDC Tech on Completion.	144,054,845	57.29%	57.19%	2.82	406	57,098,029	161	0	567
Scenario 2: Assuming that only 2,000,000 Options are exercised, no other Options are exercised or cancelled, and all Other Shareholders sell their GDC Tech Shares to the Purchaser.	111,349,959	44.28%	44.21%	2.82	314	89,802,915	253	0	567
Scenario 3: Assuming that all Options are exercised, and the number of GDC Tech Shares that Other Shareholders sell to the Purchaser together with the number of GDC Tech Shares held by the Group represents 80% of the issued share capital of GDC Tech on Completion.	144,054,845	57.19%	57.19%	2.82	406	57,449,229	162	0	568
Scenario 4: Assuming that all Options are exercised, and all Other Shareholders sell their GDC Tech Shares to the Purchaser.	111,262,159	44.17%	44.17%	2.82	314	90,241,915	255	0	569

	Number of GDC Tech Shares sold by the Group	Percentage of GDC Tech Shares sold by the Group on Completion	Percentage of GDC Tech Shares sold by the Group on Completion (on a fully diluted basis)	Consideration per GDC Tech Share *HK$*	Consideration receivable by the Group *HK$' million*	Number of GDC Tech Shares sold by the Other Shareholders	Consideration receivable by Other Shareholders *HK$' million*	Consideration payable to holders of Options who have accepted the cancellation offer *HK$' million*	Total consideration payable by the Purchaser *HK$' million*
Scenario 5: Assuming that only 2,000,000 Options accepted the cancellation offer made by the Purchaser, no other Options are exercised or cancelled, and the number of GDC Tech Shares that Other Shareholders sell to the Purchaser together with the number of GDC Tech Shares held by the Group represents 80% of the issued share capital of GDC Tech on Completion.	144,054,845	57.75%	57.65%	2.84	409	55,498,029	158	2	569
Scenario 6: Assuming that only 2,000,000 Options accepted the cancellation offer made by the Purchaser, no other Options are exercised or cancelled, and all Other Shareholders sell their GDC Tech Shares to the Purchaser.	111,749,959	44.80%	44.72%	2.84	318	87,802,915	249	2	569
Scenario 7: Assuming that only 2,000,000 Options are exercised, and all other Options are cancelled pursuant to the cancellation offer made by the Purchaser, and the number of GDC Tech Shares that Other Shareholders sell to the Purchaser together with the number of GDC Tech Shares held by the Group represents 80% of the issued share capital of GDC Tech on Completion.	144,054,845	57.29%	57.29%	2.82	406	57,098,029	161	0.4	567
Scenario 8: Assuming that only 2,000,000 Options are exercised, and all other Options are cancelled pursuant to the cancellation offer made by the Purchaser, and all Other Shareholders sell their GDC Tech Shares to the Purchaser.	111,349,959	44.28%	44.28%	2.82	314	89,802,915	253	0.4	567
Scenario 9: Assuming that all the Options are cancelled pursuant to the cancellation offer made by the Purchaser, and the number of GDC Tech Shares that Other Shareholders sell to the Purchaser together with the number of GDC Tech Shares held by the Group represents 80% of the issued share capital of GDC Tech on Completion.	144,054,845	57.75%	57.75%	2.84	409	55,498,029	158	2	569
Scenario 10: Assuming that all the Options are cancelled pursuant to the cancellation offer made by the Purchaser, and all Other Shareholders sell their GDC Tech Shares to the Purchaser.	111,749,959	44.80%	44.80%	2.84	318	87,802,915	249	2	569

Under all the above scenarios, the Purchaser will obtain an 80% interest in GDC Tech upon Completion and a fully-diluted shareholding interest of not less than 80%. Based on the total consideration payable by the Purchaser and the fully diluted shareholding interest that the Purchaser would obtain upon Completion, the implied fully diluted valuation of GDC Tech is always about HK$711 million (80% of which is approximately HK$569 million, being the total consideration payable by the Purchaser for 80% interest in GDC Tech) and is about 0.84% less than the stated fully diluted implied value of GDC Tech in the Disposal Agreement of HK$716.6 million. Accordingly, we consider that the consideration receivable by the Group for the sale of GDC Tech Shares is calculated based on the Formula. Before any adjustment (as detailed below), the consideration receivable by the Group for the sale of GDC Tech Shares shall range from HK$313.8 million to HK$409.1 million depending on the number of GDC Tech Shares sold by the Group and the number of Options exercised prior to Completion or agreed to be cancelled.

The consideration for the sale of the entire equity interest in GDC Digital Cinema Network is HK$23,370,000 (US$3,000,000).

The aggregate consideration receivable by the Group under the Disposal shall therefore ranges from HK$337.1 million to HK$432.5 million in cash.

The agreed fully diluted equity value of the GDC Tech Group should be adjusted downward if the net cash of the GDC Tech Group (which is to be determined by adding the cash and cash equivalents of the GDC Tech Group and intra-group indebtedness and deducting therefrom external indebtedness and certain unsettled reserve or provision of tax of the GDC Tech Group) as at Completion is less than HK$25,000,000 (of if it is equal to or greater than HK$25,000,000, the net cash located outside of the PRC is less than HK$12,500,000) by an amount equal to the difference between the actual net cash amount and the threshold above. We understand that the net cash position of HK$25,000,000 was set with reference to the estimated working capital requirement of the GDC Tech Group as negotiated between the Company and the Purchaser.

Basis of the consideration

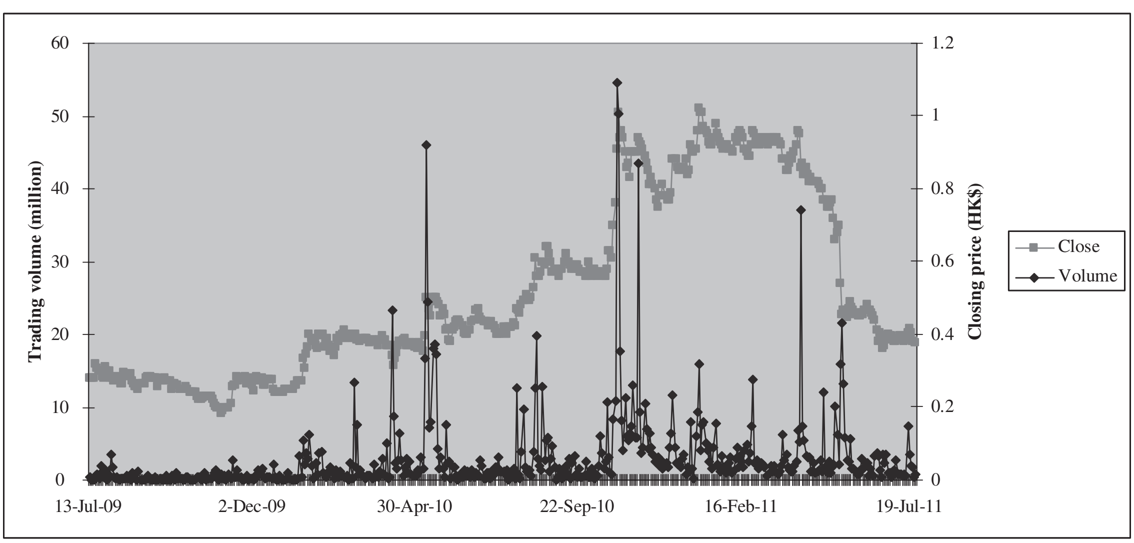
We understand that the said fully diluted equity value of the GDC Tech Group is determined based on arm's length negotiations between the Group and the Purchaser. The Carlyle Group is a reputable global asset investment company and is not related or otherwise connected with the Group. We also understand that the Company and the Purchaser have refer to the GDC Tech Group's financial and market position, past performance and prospects, and market development when agreeing on the fully diluted equity value. Apart from the positive developments of the GDC Tech Group as described above in this letter in the paragraph headed "Background", there were also some qualitative risks that have been considered which include, among others, the following factors.

1. The GDC Tech Group's performance relies on the sale of digital cinema equipment. This in turn relies on the market trend of converting cinemas from using analog exhibition to digital exhibition. This is a limited market and will one day be saturated. The growth rate would inevitably be slowed down in future.

2. The GDC Tech Group is facing direct competition with other market giants including Sony, DOLBY and Doremi. The GDC Tech Group has yet to obtain the certificate of DCI Standards compliant. These competitors generally have close relationships with the major studios and theatres in the USA. They also have a stronger financial background.

If the Group can dispose of all its interests in the GDC Tech Group under the Disposal, the consideration shall range from about HK$429 million to HK$432 million. The closing price per Share as at 7 July 2011 (the last trading date prior to the entering into of the Disposal Agreement) was HK$0.385 per Share. On 12 July 2011, the Company also entered into a subscription agreement with certain Directors and a placing agreement (as amended by a supplemental agreement entered into on 13 July 2011) with an independent placing agent, where new Shares are to be issued at HK$0.35 per Share. The Shareholders may refer to the announcements of the Company dated 12 July 2011 and 13 July 2011 regarding the subscription agreement and the placing agreement. The Company and we believe the subscription of new Shares by certain Directors represent a strong vote of confidence on the future prospects of the Company having taken into account of the Disposal.

The chart below shows closing price per Share and the daily trading volume for the two years before the Announcement.



Source: Infocast

After the publication of the Announcement on 11 July 2011, the closing price per Share increased to HK$0.405 on 12 July 2011.

For the purpose of assessing the fairness and reasonableness of the consideration for the Disposal, we set out below the table showing the range of consideration receivable by the Group if the entire shareholding in the GDC Tech Group is to be disposed of to the Purchaser pursuant to the Disposal Agreement, as compared with the market capitalisation of the Company based on different price per Share and the number of Shares outstanding immediately before and after the publication of the Announcement of 1,295,255,540 Shares. Market capitalisation represents the public consensus on the value of a company's equity and is a market estimate of a company's value, based on perceived future prospects, economic and monetary conditions. As the Group holds a major shareholding in the GDC Tech Group and that the GDC Tech Group represents a significant segment of the Group's business, we consider it a more reasonable way to assess the fairness and reasonableness of the consideration for the Disposal with reference to the market capitalisation of the Company.

We believe that value of a listed company shall comprise mainly value of its different major investments and the value of the listing status (i.e. its share trading liquidity) and its management expertise. Listing status and share trading liquidity is an intangible asset of every listed company but is difficult to value on a standalone basis. It is generally believe that the value of the same business is higher if it is listed on a recognised stock exchange. Based on our experience on reviewing other business valuation, we note that a lack of marketability (e.g. a listing status) may lead to a discount in the range of 20%. However, every case is different and it may be difficult to assign the added value to the Company's business from the listing status.

In terms of tangible assets, the Group has a substantive interest in a property in Shenzhen which is being used as its headquarters. Such building was completed in 2010 and had a carrying book value of HK$194.3 million as at 30 June 2011. The Group has also invested in the Cultural Park, which is a commercial complex comprising cinema, shops and restaurants, and a new multi-stories office tower. The Group's interests in the Cultural Park (classified as an investment property) and the headquarters building in Shenzhen are of capital value in nature. We believe that these property value should also form a core part of total market value of the Company.

For discussion purposes, we have compared the range of consideration receivable by the Group with the market capitalisation of the Company and that as adjusted by the value of the Remaining Group's property interests and the net cash dividend receivable from the GDC Tech Group (net of liabilities). We assume that the value of the remaining operations of the Group (excluding the GDC Tech Group) should at least be the capital value of the properties and the net cash dividend receivable from the GDC Tech Group less the liabilities which was HK$151.6 million as at 30 June 2011 even before we take into account of any value of the CG production and training businesses and the value of the Cultural Park after the redevelopment.

We consider that value of property interests is usually relatively more realisable on a standalone basis as compared to other assets. This is even more the case for cash and most liabilities. Accordingly, we consider it fair to make such assumption that the remaining operations of the Group (excluding the GDC Tech Group) should at least be the capital value of the properties and the net cash dividend receivable from the GDC Tech Group less liabilities.

As at 30 June 2011, the Remaining Group's total property interests amounted to HK$320.8 million; had net cash dividend receivable from the GDC Tech Group of HK$96.4 million; and had total liabilities of HK$265.6 million (excluding the GDC Tech Group and the intercompany debt between the GDC Tech Group and the Remaining Group). We understand from the Company that the net inter-company debt between the GDC Tech Group and the Remaining Group has been settled in full by way of a dividend of GDC Tech to its shareholders (including the Remaining Group) in July 2011.

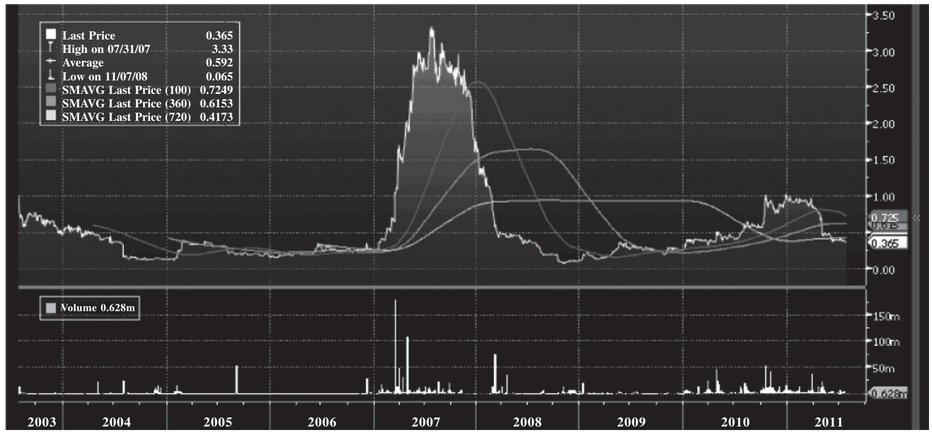
	Closing price per Share on 7 July 2011	**Closing price per Share on 12 July 2011**	**Subscription and placing price per Share**	**Closing price at the Latest as Practicable Date**
	HK$0.385	HK$0.405	HK$0.35	HK$0.30
Market capitalisation (HK$ million)	499	525	453	389
Consideration as compared to the Company's market capitalisation				
HK$429 million	86%	82%	95%	110%
HK$432 million	86%	82%	95%	111%
Market capitalisation less the difference between the net book value of self used properties and investment properties, including the Company's headquarters in Shenzhen and the Cultural Park of HK$320.8 million as at 30 June 2011, the net cash dividend receivable from the GDC Tech Group of HK$96.4 million and the liabilities of the Group (excluding those of the GDC Tech Group) of HK$265.6 million as at 30 June 2011 ("Adjusted Market Cap") (HK$'million)	347	373	301	237
Consideration as compared to the Adjusted Market Cap				
HK$429 million	124%	115%	143%	181%
HK$432 million	124%	116%	144%	182%

For the two years ended 31 December 2009 and 2010, the business of the GDC Tech Group (i.e. the digital cinema business of the Group) contributed 80.2% and 93.8% of the Group's total revenue respectively. Whilst the other segments of the Group recorded segment losses in 2010, the digital cinema business of the Group contributed 89.8% of the total segment profit of the Group for the year ended 31 December 2009. The Group acquired its investment in the Cultural Park in 2010, the redevelopment of the Cultural Park is still in its early stage and the revenue contribution from this business segment in the last financial year did not reflect the potential of this project. As described above, the Cultural Park is fundamentally a property development project with a theme of cultural entertainment and films. The project is located at an easily assessable area adjacent to a metro station in Guangzhou (one of the major cities in the PRC). It is expected that the project will be completed in 3 to 5 years. This is a key project to being developed by the Group and is the major reason for the Disposal and the subscription and placement of new Shares. As at 30 June 2011, the Group's property interests in the Cultural Park was recorded as investment property on the Group's balance sheet with a carrying book value of HK$126.5 million.

We note that the market capitalisation of the Company as at 7 July 2011 represented a premium of about 27% over the Group's net asset value as at 31 December 2010. We consider that the determination of the consideration for the Disposal should preliminary based on the market valuation of the GDC Tech Group which in turn represents the market view on the valuation of such business operations as explained above. The consideration for the disposal of the GDC Tech Group is about 24% premium to the Adjusted Market Cap.

Apart from market capitalisation, price earning ratio ("PER") and price to book ratio are also commonly used tools to assess the valuation of a company. As described above, major competitors of the GDC Tech Group includes Sony, DOLBY and Doremi, etc. Although some of their parent companies may be listed on a stock exchange, the digital cinema business is only one of the many businesses of the parent conglomerates. Accordingly, we consider it not meaningful to compare the PER and the price to book ratio of the GDC Tech Group with those of the competitors' parent companies.

Based on the fully diluted equity value of the GDC Tech Group of HK$739.9 million and the combined net profit of the GDC Tech Group of HK$149.1 million for the year ended 31 December 2010, the PER of the GDC Tech Group is about 5 times, whilst the PER of the Company is about 16 times as at 7 July 2011. As mentioned earlier in this letter the GDC Tech Group is a significant segment of the Group's business operations whilst the CG business segment (including CG creation and production and CG training) is also another major segment of the Group in terms of the Group's valuation. We set out below a chart of the prices of the Share and a table showing the contributions of the Group's segment business and segment results in percentage since the Company's listing in August 2003:



EPS (HK cents)	(4.63)	(16.43)	(9.53)	3.78	1.62	(5.53)	1.11	2.42
Revenue contribution								
CG related	22%	11%	38%	72%	25%	50%	20%	6%
Digital cinema related	78%	89%	62%	28%	75%	50%	80%	94%
Segment profit/(loss) contribution								
CG related	(54%)	(101%)	(83%)	3%	81%	13%	11%	(11%)
Digital cinema related	(46%)	1%	(17%)	(103%)	19%	(113%)	89%	115%

Source: Bloomberg and the Company's annual reports

There were years when the CG business recorded segment profit whilst the digital cinema business recorded a segment loss and vice versa. Based on the above information, we note that the share price of the Company has mostly been fluctuated in the range of HK$0.3 to HK$1.0 regardless of the relative contribution from each of the two major business segments. Share price increased significantly in 2007 when the Group's CG business was doing well whilst it was relatively less sensitive to the performance of the Group's digital cinema business. Both the CG business and the digital cinema business were key parts of the Group's value in the past years. Accordingly, we consider it not meaningful to directly compare the PERs of different segments, including the digital cinema segment carried out by the GDC Tech Group with the PER of the Company when the PER of the Company is distorted by the loss of the other segments in the last financial year.

Another commonly used method to assess the value of a company is the discounted cash flow method ("DCF"). However, the biggest disadvantage to DCF is that it relies on a lot of assumptions and estimates, including future profits, cost of capital, risks and thus the discount rates. Changes in any of the assumptions and estimates, in particular the discount rate (even a small change) can have a considerable effect on the final value. We understand from the Company that DCF is not a basis of determining the consideration. Accordingly, we consider it not appropriate to request the Company prepare a formal DCF model to value the GDC Tech Group.

Based on our understanding that: (1) The Carlyle Group is a reputation international asset investment company independent of the Company and its connected persons, and the consideration was arrived at after arm's length negotiations between the Group and The Carlyle Group; (2) the prospects of the remaining businesses of the Group, in particular the redevelopment of the Cultural Park; and (3) the consideration receivable by the Group for the disposal of its entire interests in the GDC Tech Group represents: (a) 82% to 111% of the Company's market capitalisation based on the closing prices per Share before and after the date of the Disposal Agreement and the date of the Announcement or the subscription and placing price per Share of an issue of new Shares to certain Directors and other investors (to be procured by an independent placing agent engaged by the Company); and (b) 115% to 182% of the Adjusted Market Capitalisation based on the closing prices per Share before and after the date of the Disposal Agreement and the date of the Announcement or the subscription and placing price per Share of an issue of new Shares to certain Directors and other investors (to be procured by an independent placing agent engaged by the Company), we agree with the Company that the consideration for the Disposal is fair and reasonable.

Reasons for the Disposal and the use of proceeds

As stated in the Letter from the Board, the Directors consider that the Disposal represents a good opportunity for the Group to realise its investment in the GDC Tech Group at a fair and reasonable price and enable the Group to further strength its cash flows and liquidity positions and increase the general working capital and cash resources for the other businesses of the Group and for any future potential investment opportunities that may arise from time to time.

The Company estimates that the net proceeds from the Disposal will range from HK$325.0 million to HK$417.5 million, of which HK$275 million to HK$367.5 million will be used to finance the construction works of the redevelopment of various phases of the Cultural Park once the detailed construction plan and budget are approved, and for any future potential investment opportunities that may arise from time to time.

The redevelopment of the Cultural Park is part of the Group's principal activities in relation to media entertainment and related commercial property development. As announced by the Company on 11 January 2011, the construction work for the redevelopment of Phase I of the Cultural Park with an aggregate cost of approximately HK$92.0 million has commenced. Such construction work was expected to be completed by the end of 2011. After the entire redevelopment project, which is expected to be completed in the next 3 to 5 years, the Cultural Park will have a commercial area, a cultural entertainment area and a film production and development area with a planned total floor area exceeding 200,000 sq. metres (which is subject to the final approval of the PRC relevant authorities). Because the planned total floor area of the project is still subject to approval by the relevant PRC authorities, the Company cannot determine the exact total construction cost for the project as at the Latest Practicable Date. Based on the total floor area of 200,000 sq. metres, the Company estimated that the construction cost of the Cultural Park will be more than HK$1.3 billion. Guangdong Shishang will have the leasing rights on the properties at the Cultural Park for a term up to 31 December 2045. In return, Guangdong Shishang will need to pay Pearl River Film Production a predetermined monthly payment.

The redevelopment of the Cultural Park will include the building of a cinema, a shopping mall, office units, and film and machine production studios with a strong theme of culture, film and media entertainment. Based on a publication of CB Richard Ellis, Inc. (an international property agency company) in 2011, the average rent is facing a slightly downward trend in view of the increasing supply of retail space. Nevertheless, the Guangzhou retail market continued to attract expansion of both domestic and overseas retailers. On the other hand, the office market remained on an increasing trend. In the first and second quarter of 2011, the average office rent increased by 4.8% and 8.4% quarter-to-quarter respectively. According to another international property agency company, Jones Lang LaSalle, in the first quarter of 2011, the vacancy rate of quality retail space continued to decrease. They were optimistic about the development of the retail rental market in Guangzhou. They expected that retail space rental may rebound and record an increase in the next few months. Demands for grade A office units remained strong. They forecast that office rental in Guangzhou will continue to be on a steady increasing trend this year.

According to the statistics issued by the Guangzhou Statistics Bureau, Guangdong Province recorded GDP of RMB1,060.4 billion in 2010 representing an increase of 13% as compared with that in 2009. The index of spending of residents in urban area increased by 3.2% in 2010. Given the economic growth and development of the retail and recreation market in the PRC, despite the current government actions to suppress the residential property market, the redevelopment of the Cultural Park will allow the Group to enjoy the growing prosperity of the retail, entertainment, as well as the commercial property sectors in the PRC.

The Group has informed us that, without any external financing, its existing operations, after the Disposal, may not be able to generate sufficient funds to finance various phases of the redevelopment of the Cultural Park as planned. We have reviewed and discussed with the Company the expected costs of redevelopment of the Pearl River Film Cultural Park. Apart from the Disposal, the Company has also entered into a subscription agreement and a placing agreement regarding the issue of up to 443,000,000 new Shares at a net consideration of up to HK$153.0 million which proceeds will also be used to finance the redevelopment works of the Cultural Park. Please refer to the announcements of the Company dated 12 July 2011 and 13 July 2011 for details of the said subscription and placing.

We understand from the Company that it would be difficult for the Group to obtain bank borrowings in the PRC for property development projects due to the recent tightening credit policies in the PRC, such as increases in required bank reserve and in lending interest rates. Without the Disposal, the Group may have to raise further funding through debt financing at higher interest rates which would increase the Group's finance cost and might probably adversely affect the Group's financial position.

Having considered the development of the overall economic conditions of Guangzhou, in particular the prospects of the commercial and retail rental sector there, the acquisition of the interests in Guangdong Shishang in 2010 and the related redevelopment plan of the Cultural Park and the consideration for the Disposal (as discussed in the previous section of this letter), we agree with the Company that it is in relation to the ordinary course of business of the Group to carry out the Disposal and the Disposal is in the interests of the Company and the Shareholders as a whole.

Remaining business of the Group

Upon Completion, the remaining business of the Group would comprise the CG business (including CG creation and production and CG training) and the Cultural Park.

The CG business recorded segment profit for the last five years except for the latest completed financial year ended 31 December 2010. As set out in the annual report of the Company for the year ended 31 December 2010, since the second half of the year 2009, the international animation production industry was depressed with less investments in new projects, resulting in a decrease in revenue of the CG business for the year ended 31 December 2010 by 77% when comparing with that for the year 2009, and recorded a segment loss of HK$21.2 million for the year.

As set out in the chart and the table under the heading "Basis of the consideration" above, the CG business was profitable in the past, in particular, during the year ended 31 December 2007. Apart from those set out above, as set out in the section "Financial information of the Group" in Appendix I to the Circular, the Group currently has four CG production projects in progress. The Group has recently employed Anthony laMolinara, who was awarded the Academy Award for Achievement in Visual Effects in Oscar 2004, as its new chief artistic director. The Company believes that he can help further improve the Group's creative and production quality, and enhance its international recognition. For CG training segment, the Group continues to upgrade the existing training courses with the latest CG technology and organises more professional training programmes in other areas in response to market demands. In addition, the Group plans to set up a new training centre in northern China to provide a more comprehensives network coverage in the PRC, with a view to stimulating and promoting its training business to those areas with developed animation industry and further expanding its training network.

The redevelopment of the Cultural Park will has become a major part of the Group's operations. As mentioned before, the entire redevelopment is expected to be completed in the next 3 to 5 years and the planned total floor area exceeding 200,000 sq. metres is subject to the final approval of the PRC relevant authorities. The Company does not anticipate any major obstacle in obtaining the necessary approval. More details are set out in the section under "Reasons for the Disposal and the use of proceed" above. In addition, the Group will be able to participate in the media entertainment and property development business in the PRC which has shown considerable growth in recent years and expected this stable growth will continue in the coming years as the national economy of the PRC continues to grow. We consider that the redevelopment project would have positive impact to the Group.

Financial effects of the Disposal

Upon Completion, GDC Tech and GDC Digital Cinema Network will cease to be subsidiaries of the Company and the assets and liabilities and the results of GDC Tech Group will no longer be consolidated into the consolidated financial statements of the Group. As set out in the Letter from the Board, the Group will sell: (i) a minimum of 111,262,159 GDC Tech Shares and remain as a 13.02% shareholder of GDC Tech; or (ii) a maximum of 144,054,845 GDC Tech Shares, representing the Group's entire interest in GDC Tech. We have considered the potential financial effects of the Disposal under both scenarios.

Net asset value

Based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as set out in Appendix III to the Circular, the unaudited pro forma net assets of the Remaining Group would increase by the expected gain on the Disposal of: (i) approximately HK$341.0 million on the basis that the Group remains a 13.02% shareholder of GDC Tech; and (ii) approximately HK$341.0 million on the basis that the Group disposes its entire interest in GDC Tech, as if the Disposal has been completed on 30 June 2011.

We understand from the Company that under Hong Kong Financial Reporting Standards, the Group's remaining 13.02% interest in GDC Tech of approximately HK$92.5 million will be classified as available-for-sale investment under non-current assets in the consolidated statement of financial position of the Group on the basis that the Group remains a 13.02% shareholder of GDC Tech.

Earnings

Based on the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group as set out in Appendix III to the Circular, the unaudited pro forma net profit for the year ended 31 December 2010 would amount to: (i) approximately HK$341.6 million on the basis that the Group remains a 13.02% shareholder of GDC Tech; and (ii) approximately HK$341.6 million on the basis that the Group disposes its entire interest in GDC Tech, assuming that Completion had taken place on 1 January 2010 and after taking into account of the expected gain on the Disposal, as compared to the actual net profit of the Group of approximately HK$89.7 million.

Based on the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group as set out in Appendix III to the Circular, the pro forma net loss of the Remaining Group would be approximately HK$54.9 million under both scenarios, assuming that Completion had taken place on 1 January 2010 and without taking into account of the expected gain on the Disposal, as compared to the actual net profit of the Group of approximately HK$89.7 million.

As set out in the Letter from the Board, it is estimated that the Group will recognise a gain on disposal of: (i) approximately HK$341.0 million on the basis that the Group remains a 13.02% shareholder of GDC Tech; and (ii) approximately HK$341.0 million on the basis that the Group disposes its entire interest in GDC Tech.

Cashflow

Based on the unaudited pro forma consolidated statement of cash flows of the Remaining Group as set out in Appendix III to the Circular, the unaudited pro forma cash and cash equivalents of the Remaining Group as at 31 December 2010 would increase by: (i) approximately HK$181.5 million to approximately HK$417.2 million on the basis that the Group remains a 13.02% shareholder of GDC Tech: and (ii) approximately HK$274.0 million to approximately HK$509.7 million on the basis that the Group disposes its entire interest in GDC Tech, as if the Disposal had been completed on 1 January 2010.

As set out in the Letter from the Board, the consideration for the Disposal of: (i) approximately HK$337.1 million on the basis that the Group remains a 13.02% shareholder of GDC Tech: and (ii) approximately HK$432.5 million on the basis that the Group disposes its entire interest in GDC Tech, shall be payable by cheque at Completion. The proceeds from the Disposal are expected to bring a positive cash flow to the Group.

Gearing

As set out in the interim report of the Company for the six months ended 30 June 2011, the Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 30 June 2011 is 45%. Based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as set out in Appendix III to the Circular, the Group's gearing ratio would decrease to approximately 23% under both scenarios, as if the Disposal has been completed on 30 June 2011.

Based on the above, the Disposal would have an overall positive effect on the Group's financial position upon Completion. On such basis, we are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Disposal Agreement and the Disposal are fair and reasonable and the Disposal is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal.

Yours faithfully,
For and on behalf of
OSK Capital Hong Kong Limited
Allen Tze
Executive Director

1. FINANCIAL SUMMARY

The audited consolidated financial statements of the Company: (i) for the year ended 31 December 2010 is disclosed in the 2010 annual report of the Company published on 29 March 2011, from pages 46 to 114; (ii) for the year ended 31 December 2009 is disclosed in the 2009 annual report of the Company published on 24 March 2010, from pages 50 to 113; and (iii) for the year ended 31 December 2008 is disclosed in the 2008 annual report of the Company published on 16 March 2009, from pages 50 to 113. The unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2011 is disclosed in the 2011 interim report of the Company published on 12 August 2011, from pages 5 to 23. All of which have been published on the HKExnews website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.gdc-world.com).

2. WORKING CAPITAL

After taking into account the expected Completion of the Disposal and the present internal financial resources available as well as the available banking facilities, and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements for the next twelve months from the date of this Circular.

3. INDEBTEDNESS

Borrowings

At the close of business on 30 June 2011, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had outstanding secured bank borrowings of approximately HK$191,272,000.

Pledge of assets and restricted bank deposits

At the close of business on 30 June 2011, the Group has pledged the following assets to banks as security for the Group's secured banking facilities:

(i) the Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of approximately HK$267,383,000 are pledged to a bank to secure for a bank borrowing with an outstanding amount of approximately HK$166,265,000 and unutilised borrowing facilities of approximately HK$42,169,000; and

(ii) the Group's pledged deposits amounting to approximately HK$27,057,000 to a bank to secure short-term bank borrowings of approximately HK$25,007,000.

Debt securities

At the close of business on 30 June 2011, the Group had no debt securities.

Contingent liabilities

Save as disclosed in the section headed "Litigation" in Appendix IV to this Circular, the Group did not have any material contingent liabilities as at the close of business on 30 June 2011.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities at the close of business on 30 June 2011.

(Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 June 2011.)

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 December 2010, the date to which the latest published audited financial statement of the Group were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS AND OPERATIONS OF THE GROUP AND THE REMAINING GROUP

The following is the management discussion and analysis of the Group and the Remaining Group (not including pro forma gain on the Disposal) principally extracted from the annual reports of the Company for the year ended 31 December 2010.

THE GROUP

Financial Overview

Revenue for the year ended 31 December 2010 was HK$584,019,000, when compared with that of HK$383,117,000 for the year 2009, represented an increase of 52%. The increase was mainly attributable to an increase in revenue from the digital content distribution and exhibitions division by HK$237,600,000. As a result of the continuous roll-out of digital cinemas in the United States, the PRC, South Korea and other countries, more digital cinema equipment was sold and the related services were provided during the year. However, there was a decrease in revenue from the CG creation and production division by HK$44,015,000 for the year as the Group received fewer orders for CG production.

Cost of sales for the year ended 31 December 2010 amounted to HK$335,592,000, when comparing with that of HK$280,180,000 for the year 2009, representing an increase of 20%. The increase was mainly due to the increase in the costs of goods sold.

The Group recorded a gross profit of HK$248,427,000 for the year ended 31 December 2010, representing a gross profit margin of 43%. Comparing with the gross profit margin of 27% for the year 2009, the significant improvement was mainly due to an increase in the sales of digital cinema equipment with higher profit margins, and increases in technical service income as well as revenue from the provision of assembly and integration services in relation to digital cinemas during the year ended 31 December 2010.

Other income for the year ended 31 December 2010 amounted to HK$9,711,000 (2009: HK$16,434,000), representing a decrease of 41%. The decrease was mainly due to the fact that the amount for the year 2009 included a one-off gain of HK$2,543,000 arising from the disposal of intangible asset to China Film Group Corporation ("CFGC") upon termination of the cooperation with CFGC for the deployment of digital cinema network in the PRC and the relevant imputed interest income of HK$3,127,000 derived from the deferred consideration.

Administrative expenses for the year ended 31 December 2010 amounted to HK$88,286,000 (2009: HK$64,214,000), representing an increase of 37%. The increase was mainly due to higher staff costs and office operating expenses as a result of the growth in the scale of operations of the Group.

Other expenses and losses of HK$16,776,000 (2009: HK$8,208,000) mainly included research and development costs of HK$9,257,000 (2009: HK$8,043,000) and an impairment of convertible loan receivable of HK$7,519,000 (2009: Nil).

Share-based payment expense of HK$24,471,000 (2009: Nil) represented recognition of equity-settled share-based payments for the share options granted by the Company and GDC Tech during the year.

Overall, the Group recorded a profit of HK$31,397,000 for the year ended 31 December 2010 attributable to the owners of the Company, which, when compared with that of HK$14,419,000 for the year 2009, represented an increase of 118%.

Basic and diluted earnings per share for the year ended 31 December 2010 amounted to HK2.42 cents (2009: HK1.11 cents), representing an increase of 118% when compared with those for the year 2009.

Liquidity and financial Resources

As at 31 December 2010, the Group had bank balances and cash of HK$235.7 million (2009: HK$166.6 million), pledged bank deposits of HK$46.2 million (2009: HK$2.0 million) and structured deposits of HK$41.2 million (2009: Nil), which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase was the result of new bank loans raised of HK$194.8 million, net repayment from convertible loan receivable of HK$113.4 million and net cash from operating activities of HK$68.5 million, netted off with purchase of property, plant and equipment of HK$158.0 million and net cash outflow arising from the acquisition of Guangdong Shishang of HK$63.1 million.

As at 31 December 2010, the Group's borrowings amounted to HK$205.3 million, of which HK$45.3 million were repayable within twelve months from 31 December 2010 and HK$160.0 million were repayable after twelve months from 31 December 2010. The borrowings were mainly denominated in Renminbi and bore interest at market rates.

The Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 31 December 2010 was 52% (2009: 3%). As at 31 December 2010, the Group had a current ratio of 1.8 (2009: 2.8) based on current assets of HK$554.2 million and current liabilities of HK$302.5 million. The significant increase in the gearing ratio was mainly attributable to new bank loans raised to finance the construction of the Group's headquarters building in Shenzhen and as general working capital for the Group. Notwithstanding such an increase in the gearing ratio, the Group continued to maintain a healthy capital ratio as it has an excess of current assets over current liabilities.

Capital Structure

The equity attributable to owners of the Company amounted to HK$393.8 million as at 31 December 2010 (2009: HK$329.5 million). The increase was mainly attributable to profit for the year ended 31 December 2010 attributable to owners of the Company of HK$31.4 million, recognition of equity-settled share-based payments in share options reserve of HK$18.6 million for the share options granted by the Company and exchange differences arising on translation of foreign operations of HK$10.1 million.

Material Acquisitions, Disposals and Significant Investment

On 30 March 2010, the Group acquired 68% of the registered capital of Guangdong Shishang for consideration of RMB56,060,000 (equivalent to approximately HK$63,705,000). The acquisition was completed on 20 April 2010. Details of the acquisition were set out in the announcement of the Company dated 30 March 2010.

Guangdong Shishang was a limited liability company established in the PRC on 23 March 2007. Guangdong Shishang entered into a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) with Pearl River Film Production to jointly redevelop the Pearl River Film Cultural Park. Pearl River Film Production, as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to Guangdong Shishang, in return for predetermined monthly payment from Guangdong Shishang for a term up to 31 December 2045. Guangdong Shishang was responsible for the design, financing, construction and operation of the Pearl River Film Cultural Park and the funding of the entire construction project. Upon the expiration of the Framework Agreement, Guangdong Shishang had to return all properties to Pearl River Film Production.

Other than the acquisition of Guangdong Shishang as disclosed above and the dilution of interest in GDC Tech upon exercise of 3,300,000 share options of GDC Tech, the Group did not have any material acquisitions, disposals and significant investment during the year ended 31 December 2010.

Charge on Assets

As at 31 December 2010, the Group had the following charges on assets:

(i) The Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK$266.6 million were pledged to a bank to secure for a bank borrowing with an outstanding amount of HK$162.3 million and utilised borrowing facilities of HK$41.2 million; and

(ii) The Group pledged deposits amounting to HK$46.2 million to a bank to secure short-term bank loans of HK$43.0 million. The pledged bank deposit would be released upon the settlement of the bank loans.

Foreign Exchange Exposure

Up till 31 December 2010, the Group earned revenue mainly in United States dollars and Renminbi, and incurred costs mainly in United States dollars, Renminbi and Hong Kong dollars. The Directors believed that the Group did not have significant foreign exchange exposure, and thus did not implement any foreign currency hedging policy at the moment. However, if necessary, the Group would consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2010, the Group had no significant exposure under foreign exchange.

Contingent liabilities

The Company received an original complaint in April 2010 and a first amended complaint in July 2010 for damages and injunctive relief, and demand for jury trial (the "Proceeding") filed with the District Court, Central District of California Western Division of the United States (the "Court") by X6D Limited, X6D USA Inc. and XpanD, Inc. (collectively, the "X6D") against, among others, the Company and its subsidiaries namely GDC Tech, GDC Technology China Limited, GDC Technology (USA), LLC and GDC Technology of America LLC (collectively, the "Defendants") for copyright infringement, trademark and trade dress infringement, patent infringement, misappropriation of trade secrets and statutory unfair competition in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses was not a core business of the Group.

The Group filed its answer and counterclaims in November 2010 and amended answer and counterclaims in January 2011 denying X6D's allegations, asserting various affirmative defenses and asserting eight counterclaims against X6D generally that, among others, X6D does not own any valid intellectual property rights that cover the Defendants' 3D glasses and X6D wrongfully and intentionally interfered with the Defendants' prospective business relations with their potential customers. In January 2011, X6D filed its answer to the counterclaims denying the Defendants' allegations and asserting various affirmative defenses.

A Joint Rule 26 Statement was submitted to the Court in January 2011 and the Court issued a scheduling order in February 2011 that the motion for summary judgment shall be filed by no later than 30 November 2011. No trial date had been set up to the date of the 2010 Annual Report for issue.

Saved as disclosed above about litigation proceeding, the Group had no significant contingent liabilities as at 31 December 2010.

Employees

As at 31 December 2010, the Group employs 627 (2009: 652) full time employees (excluding those employees under the payroll of an associate of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme were also available to the employees of the Group.

During the year ended 31 December 2010, the Company and its subsidiaries had neither paid nor committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

THE REMAINING GROUP

Financial Overview

Revenue for the year ended 31 December 2010 was HK$35,920,000, when comparing with that of HK$76,043,000 for the year 2009, representing a decrease of 53%. The decrease was mainly attributable to a decrease in revenue from the CG creation and production division by HK$44,015,000 for the year as the Remaining Group received fewer orders for CG production as the international animation production industry has been depressed with less investment in new projects.

Cost of sales for the year ended 31 December 2010 amounted to HK$32,825,000, when comparing with that of HK$59,096,000 for the year 2009, representing a decrease of 44%. The decrease was mainly due to lower CG production costs incurred.

The Remaining Group recorded a gross profit of HK$3,095,000 for the year ended 31 December 2010, representing a gross profit margin of 9%. Compared with the gross profit margin of 22% for the year 2009, the decrease was mainly due to the CG production was not operated in full capacity during the year.

Other income for the year ended 31 December 2010 amounted to HK$6,524,000 (2009: HK$16,434,000), representing a decrease of 60%. The decrease was mainly due to a decrease in interest income during the year.

Administrative expenses for the year ended 31 December 2010 amounted to HK$30,682,000 (2009: HK$32,192,000), representing a decrease of 5%. The decrease was mainly due to a decrease in the office and related expenses incurred by the CG creation and production division.

Other expenses and losses of HK$7,519,000 (2009: Nil) represented an impairment of the convertible loan receivable.

Share-based payment expense of HK$18,560,000 (2009: Nil) represented recognition of equity-settled share-based payments for the share options granted by the Company during the year.

Overall, the Remaining Group's recorded loss of HK$54,856,000 for the year ended 31 December 2010 attributable to owners of the Company, when compared with that of HK$9,160,000 for the year 2009, represented an increase of 499%.

Basic loss per share for the year ended 31 December 2010 amounted to HK4.24 cents (2009: HK0.71 cents), representing an increase of 497% when compared with that of the year 2009.

Liquidity and financial Resources

As at 31 December 2010, the Remaining Group had bank balances and cash of HK$84.6 million (2009: HK$74.7 million) and no pledged bank deposits (2009: HK$2.0 million), which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The increase was the result of new bank loans raised of HK$151.8 million and net repayment from convertible loan receivable of HK$113.4 million, netted off with purchase of property, plant and equipment of HK$152.8 million, net cash outflow arising from the acquisition of Guangdong Shishang of HK$63.1 million and net cash used in operating activities of HK$28.5 million.

As at 31 December 2010, the Remaining Group's borrowings amounted to HK$162.4 million, of which HK$2.4 million were repayable within twelve months from 31 December 2010 and HK$160.0 million were repayable after twelve months from 31 December 2010. The borrowings were mainly denominated in Renminbi and bore interest at market rates.

The Remaining Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 31 December 2010 was 60% (2009: 3%). As at 31 December 2010, the Remaining Group had a current ratio of 1.2 (2009: 4.2) based on current assets of HK$133.2 million and current liabilities of HK$107.4 million. The significant increase in the gearing ratio was mainly attributable to cash used to finance the construction of the Remaining Group's headquarters building in Shenzhen. Notwithstanding such an increase in the gearing ratio, the Remaining Group continued to maintain a healthy capital ratio with an excess of current assets over current liabilities.

Capital Structure

The equity attributable to owners of the Company amounted to HK$268.5 million as at 31 December 2010 (2009: HK$300.2 million). The decrease was mainly attributable to the loss for the year ended 31 December 2010 attributable to owners of the Company of HK$53.4 million, netted off with recognition of equity-settled share-based payments in share options reserve of HK$18.6 million for the share options granted by the Company.

Material Acquisitions, Disposals and Significant Investment

On 30 March 2010, the Remaining Group acquired 68% of the registered capital of Guangdong Shishang for consideration of RMB56,060,000 (equivalent to approximately HK$63,705,000). The acquisition was completed on 20 April 2010. Details of the acquisition were set out in the announcement of the Company dated 30 March 2010.

Guangdong Shishang was a limited liability company established in the PRC on 23 March 2007. Guangdong Shishang entered into a framework agreement on 28 March 2007 (as supplemented on 3 April 2008) (the "Framework Agreement") with Pearl River Film Production to jointly redevelop the Pearl River Film Cultural Park. Pearl River Film Production, as the landlord of the Pearl River Film Cultural Park, agreed to grant the property leasing right to Guangdong Shishang, in return for predetermined monthly payment from Guangdong Shishang for a term up to 31 December 2045. Guangdong Shishang was responsible for the design, financing, construction and operation of the Pearl River Film Cultural Park and the funding of the entire construction project. Upon the expiration of the Framework Agreement, Guangdong Shishang had to return all properties to Pearl River Film Production.

Other than the acquisition of Guangdong Shishang as disclosed above, the Remaining Group did not have any material acquisitions, disposals and significant investment during the year ended 31 December 2010.

Charge on Assets

As at 31 December 2010, the Remaining Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK$266.6 million were pledged to a bank to secure for a bank borrowing with an outstanding amount of HK$162.3 million and utilised borrowing facilities of HK$41.2 million.

Foreign Exchange Exposure

Up till 31 December 2010, the Remaining Group has earned its revenue mainly in United States dollars and Renminbi, and incurred costs mainly in United States dollars, Renminbi and Hong Kong dollars. The Directors believed that the Remaining Group did not have significant foreign exchange exposure, and thus did not implement any foreign currency hedging policy at the moment. However, if necessary, the Remaining Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 31 December 2010, the Remaining Group had no significant exposure under foreign exchange.

Contingent liabilities

The Company received an original complaint in April 2010 and a first amended complaint in July 2010 for damages and injunctive relief, and demand for jury trial (the "Proceeding") filed with the District Court, Central District of California Western Division of the United States (the "Court") by X6D Limited, X6D USA Inc. and XpanD, Inc. (collectively, the "X6D") against, among others, the Company and its subsidiaries namely GDC Tech, GDC Technology China Limited, GDC Technology (USA), LLC and GDC Technology of America LLC (collectively, the "Defendants") for copyright infringement, trademark and trade dress infringement, patent infringement, misappropriation of trade secrets and statutory unfair competition in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses was not a core business of the GDC Tech Group.

The GDC Tech Group filed its answer and counterclaims in November 2010 and amended answer and counterclaims in January 2011 denying X6D's allegations, asserting various affirmative defenses and asserting eight counterclaims against X6D generally that, among others, X6D does not own any valid intellectual property rights that cover the Defendants' 3D glasses and X6D wrongfully and intentionally interfered with the Defendants' prospective business relations with their potential customers. In January 2011, X6D filed its answer to the counterclaims denying the Defendants' allegations and asserting various affirmative defenses.

A Joint Rule 26 Statement was submitted to the Court in January 2011 and the Court issued a scheduling order in February 2011 that the motion for summary judgment shall be filed by no later than 30 November 2011. No trial date had been set up to the date of the 2010 Annual Report for issue.

Saved as disclosed above about litigation proceeding, the Remaining Group had no significant contingent liabilities as at 31 December 2010.

Employees

As at 31 December 2010, the Remaining Group employed 477 (2009: 564) full time employees (excluding those employees under the payroll of an associate of the Remaining Group). The Remaining Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme were also available to the employees of the Remaining Group.

During the year ended 31 December 2010, the Company and its subsidiaries had neither paid nor committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

6. FUTURE PROSPECT OF THE REMAINING GROUP

CG creation and production

The Remaining Group currently has four CG production projects from Australia, Europe and North America in progress and there are several projects under negotiation as well. The Remaining Group will not only continue to delivery high quality products to the customers, but also enhance its financial control and production efficiency to improve the performance. Recently, the Remaining Group employed Mr. Anthony laMolinara, who was awarded the Academy Award for Achievement in Visual Effects in Oscar 2004, as its chief artistic director. With his experience, knowledge and expertise, the Remaining Group can improve its creative and production quality, and enhance its international recognition.

The Remaining Group's diversification in intellectual property ("IP") investment has achieved a preliminary success. At present, two 3D-animated films are currently in the post-production stage and one of them will be released during the year 2011; one CG-animated television series are nearly completed with the Remaining Group appointing its agent for the international distribution; and one traditional-animated television series are completed and being distributed both domestically and internationally. In view of the growing 3D film and television market worldwide and the animation industry in the PRC, the Remaining Group continues to invest in its own IP assets and plans for expansion of to related businesses.

Furthermore, after relocation of the Shenzhen operations to the Remaining Group's constructed Shenzhen headquarters building in late 2010, the Remaining Group has further expanded the research, development and production centre of CG businesses. Also, the Remaining Group has applied to the relevant PRC authorities to lease out part of the building.

CG training

CG training division continues to maintain its industry reputation as one of the most comprehensive and effective CG professional training programme in the PRC. The Remaining Group not only upgrades the existing training courses with the latest CG technology, but also organises more professional training programmes in other areas in response to market demands. Also, the Remaining Group continues to co-operate with prominent colleges in the PRC to organise "Skills and Qualifications" training programme for their students in achieving "One Course, Multiple Certifications", and to hone the students' practical skills in preparation for immediate employment after graduation.

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

Cultural park

The construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park has commenced with an aggregate consideration of approximately HK$92.0 million and is expected to be completed by year end 2011. The Remaining 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. The entire construction for the redevelopment is expected to be completed in the next 3 to 5 years and the redeveloped Pearl River Film Cultural Park will, subject to final approval by the relevant PRC authorities, have a planned total floor area exceeding 200,000 square metres.

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 Remaining Group is of the view that the whole redevelopment of the Pearl River Film Cultural Park provides a good opportunity for the Remaining Group to tap into the rapid media entertainment and property development business in the PRC.

1. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF GDC TECH

The consolidated financial information of GDC Tech and its subsidiaries has been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Based on their review, nothing has come to their attention that causes them to believe that the consolidated financial information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the consolidated financial statements of the Company which conform with Hong Kong Financial Reporting Standards issued by the HKICPA and the basis of preparation set out in note 2 to the unaudited consolidated financial information.

I. Unaudited Consolidated Statements of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	54,840	334,342	567,006	241,675	303,385
Cost of sales	(38,780)	(247,323)	(325,711)	(139,056)	(160,406)
Gross profit	16,060	87,019	241,295	102,619	142,979
Other income	3,845	6,154	10,853	4,389	6,126
Distribution costs and selling expenses	(6,606)	(6,666)	(15,129)	(3,965)	(11,555)
Administrative expenses					
– Share-based payment expense	–	–	(5,911)	–	–
– Other administrative expenses	(27,190)	(26,962)	(50,597)	(20,354)	(29,380)
Finance costs	(3)	–	(803)	(370)	(180)
Other expenses	–	(8,043)	(9,257)	(4,155)	(4,408)
(Loss) profit before tax	(13,894)	51,502	170,451	78,164	103,582
Income tax credit (expense)	2,183	(5,729)	(15,233)	(6,985)	(15,948)
(Loss) profit for the year/period	(11,711)	45,773	155,218	71,179	87,634
Other comprehensive income (expenses) for the year/period:					
Exchange differences arising on translation of foreign operations	984	(54)	4,012	354	4,170
Total comprehensive (expenses) income for the year/period	(10,727)	45,719	159,230	71,533	91,804

II. Unaudited Consolidated Statements of Financial Position

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	3,146	3,957	6,904	23,603
Amounts due from fellow subsidiaries	28,787	32,927	57,757	–
Amount due from immediate holding company	12,702	14,523	27,023	–
Loan to immediate holding company	73,632	68,952	68,952	–
	118,267	120,359	160,636	23,603
Current assets				
Inventories	15,682	34,947	57,142	70,580
Trade receivables	3,454	35,368	112,193	116,559
Other receivables, prepayments and deposits	10,677	8,930	17,252	9,344
Amounts due from fellow subsidiaries	–	–	–	77,892
Amount due from immediate holding company	–	–	–	24,402
Loan to immediate holding company	–	–	–	68,952
Structured deposits	–	–	41,169	–
Pledged bank deposits	2,808	–	44,218	27,057
Bank balances and cash	32,586	91,184	148,729	234,251
	65,207	170,429	420,703	629,037
Current liabilities				
Advances from customers	19,908	25,797	35,937	36,181
Trade payables	6,534	31,389	43,036	32,981
Other payables and accruals	6,837	32,888	66,619	67,843
Amounts due to fellow subsidiaries	13	13	8,734	9,967
Tax liabilities	479	5,213	16,794	21,628
Secured bank borrowings	–	–	42,990	25,007
	33,771	95,300	214,110	193,607
Net current assets	31,436	75,129	206,593	435,430
Net assets	149,703	195,488	367,229	459,033
Capital and reserves				
Share capital	23,260	23,305	23,635	23,635
Reserves	126,443	172,183	343,594	435,398
Total equity	149,703	195,488	367,229	459,033

III. Unaudited Consolidated Statements of Changes in Equity

	Share capital HK$'000	Share premium reserve HK$'000	Statutory reserve HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	(Deficit) retained earnings HK$'000	Total HK$'000
At 1 January 2008	23,260	147,658	–	15,988	269	(26,745)	160,430
Loss for the year	–	–	–	–	–	(11,711)	(11,711)
Other comprehensive income	–	–	–	–	984	–	984
Total comprehensive income (expenses) for the year	–	–	–	–	984	(11,711)	(10,727)
Sub-total	23,260	147,658	–	15,988	1,253	(38,456)	149,703
Lapse of share options granted	–	–	–	(150)	–	150	–
At 31 December 2008	23,260	147,658	–	15,838	1,253	(38,306)	149,703
Profit for the year	–	–	–	–	–	45,773	45,773
Other comprehensive expenses	–	–	–	–	(54)	–	(54)
Total comprehensive (expenses) income for the year	–	–	–	–	(54)	45,773	45,719
Sub-total	23,260	147,658	–	15,838	1,199	7,467	195,422
Exercise of share options	45	27	–	(6)	–	–	66
Lapse of share options granted	–	–	–	(10,057)	–	10,057	–
Transfer to statutory reserve	–	–	5,682	–	–	(5,682)	–
At 31 December 2009	23,305	147,685	5,682	5,775	1,199	11,842	195,488
Profit for the year	–	–	–	–	–	155,218	155,218
Other comprehensive income	–	–	–	–	4,012	–	4,012
Total comprehensive income for the year	–	–	–	–	4,012	155,218	159,230

	Share capital	Share premium reserve	Statutory reserve	Share options reserve	Exchange reserve	(Deficit) retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sub-total	23,305	147,685	5,682	5,775	5,211	167,060	354,718
Exercise of share options	330	9,020	–	(2,750)	–	–	6,600
Recognition of equity-settled share-based payments	–	–	–	5,911	–	–	5,911
At 31 December 2010	23,635	156,705	5,682	8,936	5,211	167,060	367,229
Profit for the period	–	–	–	–	–	87,634	87,634
Other comprehensive income	–	–	–	–	4,170	–	4,170
Total comprehensive income for the period	–	–	–	–	4,170	87,634	91,804
Sub-total	23,635	156,705	5,682	8,936	9,381	254,694	459,033
Lapse of share options granted	–	–	–	(41)	–	41	–
At 30 June 2011	23,635	156,705	5,682	8,895	9,381	254,735	459,033
At 1 January 2010	23,305	147,685	5,682	5,775	1,199	11,842	195,488
Profit for the period	–	–	–	–	–	71,179	71,179
Other comprehensive income	–	–	–	–	354	–	354
Total comprehensive income for the period	–	–	–	–	354	71,179	71,533
Sub-total	23,305	147,685	5,682	5,775	1,553	83,021	267,021
Exercise of share options	165	4,510	–	(1,375)	–	–	3,300
At 30 June 2010	23,470	152,195	5,682	4,400	1,553	83,021	270,321

IV. Unaudited Consolidated Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
(Loss) profit before tax	(13,894)	51,502	170,451	78,164	103,582
Adjustments for:					
Depreciation of property, plant and equipment	1,440	2,559	1,434	561	1,658
Allowance for inventories	1,031	3,581	6,188	–	–
Finance costs	3	–	803	370	180
Share-based payment expense	–	–	5,911	–	–
Allowance for bad debts on trade receivables	–	–	–	–	500
Provision for other deposits	–	–	–	–	1,105
Loss on disposal of property, plant and equipment	–	–	283	261	–
Interest income	(3,845)	(6,150)	(9,410)	(4,360)	(6,107)
Operating cashflow before movements in working capital	(15,265)	51,492	175,660	74,996	100,918
Increase in inventories	(9,993)	(22,846)	(28,383)	(10,793)	(13,438)
Increase in trade receivables	(631)	(31,914)	(76,825)	(40,363)	(4,866)
(Increase) decrease in other receivables, prepayments and deposits	(7,139)	1,747	(8,322)	(13,977)	6,803
Increase in advances from customers	16,158	5,889	10,140	1,079	244
Increase (decrease) in trade payables	2,341	24,855	11,647	16,162	(10,055)
(Decrease) increase in other payables and accruals	(680)	26,051	33,731	32,693	1,224
(Decrease) increase in amounts due to fellow subsidiaries	(8,325)	–	8,721	–	1,233
Cash (used in) from operations	(23,534)	55,274	126,369	59,797	82,063
Income tax paid	–	(995)	(3,652)	(2,927)	(11,114)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(23,534)	54,279	122,717	56,870	70,949

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES					
(Loan to) repayment from immediate holding company	(73,632)	4,680	–	–	–
(Advance) repayment of amount due from immediate holding company	(12,702)	2,651	(8,306)	(3,896)	4,698
Purchase of property, plant and equipment	(965)	(3,370)	(4,664)	(3,270)	(18,357)
(Purchase of) proceeds from disposal of structured deposits	–	–	(41,169)	–	41,169
Repayment (advance) of amounts due from fellow subsidiaries	5,239	(2,752)	(21,358)	(6,246)	(18,401)
Withdrawal of pledged bank deposits	4,992	2,808	–	–	17,161
Pledge of bank deposits	–	–	(44,218)	(42,052)	–
Interest received	3,845	290	1,744	706	2,296
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(73,223)	4,307	(117,971)	(54,758)	28,566
FINANCING ACTIVITIES					
Interest paid	(3)	–	(803)	(370)	(180)
Proceeds from issue of shares upon exercise of share options	–	66	6,600	3,300	–
New borrowings raised	–	–	42,990	42,001	25,007
Repayment of borrowings	–	–	–	–	(42,990)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(3)	66	48,787	44,931	(18,163)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(96,760)	58,652	53,533	47,043	81,352
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	130,300	32,586	91,184	91,184	148,729
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(954)	(54)	4,012	354	4,170
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, COMPRISING BANK BALANCES AND CASH	32,586	91,184	148,729	138,581	234,251

V. Notes to the Unaudited Consolidated Financial Information

1. GENERAL

On 8 July 2011, the Company, GDC Holdings and the Purchaser entered into the Disposal Agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Tech and 100% of the issued share capital of GDC Digital Cinema Network.

Under the Disposal Agreement, GDC Holdings is required to procure 80% of the issued share capital of GDC Tech to be sold. As at the Latest Practicable Date, GDC Tech is a 57.75% owned subsidiary of GDC Holdings. It is the intention of GDC Holdings that all the other shareholders may, if they elect to do so, participate in the Disposal and sell the GDC Tech Shares.

2. BASIS OF PRESENTATION OF THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information of GDC Tech and its subsidiaries has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 19 of the GEM Listing Rules, and solely for the purposes of inclusion in the circular issued by the Company in connection with the Disposal.

The amounts included in the unaudited consolidated financial information for each of the three years ended 31 December 2010 and the six months ended 30 June 2011 have been recognised and measured in accordance with the accounting policies of the Company for the financial year commencing 1 January 2011 which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, which are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

The unaudited consolidated financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements". In addition, for the purpose of the preparation of the unaudited consolidated financial information, the comparative financial information in respect of the year ended 31 December 2007 has not been presented.

2. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF GDC DIGITAL CINEMA NETWORK

The consolidated financial information of GDC Digital Cinema Network and its subsidiaries has been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Based on their review, nothing has come to their attention that causes them to believe that the consolidated financial information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the consolidated financial statements of the Company which conform with Hong Kong Financial Reporting Standards issued by the HKICPA and the basis of preparation set out in note 2 to the unaudited consolidated financial information.

I. Unaudited Consolidated Statements of Comprehensive Income

	Period from 20 July 2007 (date of incorporation) to 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2010	Six months ended 30 June 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from provision of assembly and integrations services	–	–	4,330	1,475	1,859
Administrative expenses	(1,636)	(3,904)	(7,007)	(2,585)	(3,838)
Interests on amount due to a fellow subsidiary	–	(1,387)	(3,472)	(1,573)	(1,731)
Loss and total comprehensive expense for the period/year	(1,636)	(5,291)	(6,149)	(2,683)	(3,710)

II. Unaudited Consolidated Statements of Financial Position

	31 December 2008	31 December 2009	31 December 2010	30 June 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	9	5	422	374
Receivables related to the VPF Arrangement	–	20,657	42,024	45,878
	9	20,662	42,446	46,252
Current assets				
Receivables related to the VPF Arrangement	–	4,668	6,298	12,444
Other receivables, prepayments and deposits	3	25	377	417
Amount due from a fellow subsidiary	–	–	–	115
Bank balances and cash	–	709	2,407	2,455
	3	5,402	9,082	15,431
Current liabilities				
Others payables and accruals	–	–	299	577
Amount due to immediate holding company	1,648	64	6,548	–
Amount due to a fellow subsidiary	–	32,927	57,757	77,892
	1,648	32,991	64,604	78,469
Net current liabilities	(1,645)	(27,589)	(55,522)	(63,038)
Net liabilities	(1,636)	(6,927)	(13,076)	(16,786)
Capital and deficit				
Share capital (1 share at par value of US$1)	–	–	–	–
Accumulated losses	(1,636)	(6,927)	(13,076)	(16,786)
Deficiency of total equity	(1,636)	(6,927)	(13,076)	(16,786)

III. Unaudited Consolidated Statements of Changes in Equity

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 20 July 2007 (date of incorporation)	–	–	–
Issue of 1 share at par value of US$1	–	–	–
Loss and total comprehensive expense for the period	–	(1,636)	(1,636)
At 31 December 2008	–	(1,636)	(1,636)
Loss and total comprehensive expense for the year	–	(5,291)	(5,291)
At 31 December 2009	–	(6,927)	(6,927)
Loss and total comprehensive expense for the year	–	(6,149)	(6,149)
At 31 December 2010	–	(13,076)	(13,076)
Loss and total comprehensive expense for the period	–	(3,710)	(3,710)
At 30 June 2011	–	(16,786)	(16,786)
At 1 January 2010	–	(6,927)	(6,927)
Loss and total comprehensive expense for the period	–	(2,683)	(2,683)
At 30 June 2010	–	(9,610)	(9,610)

IV. Unaudited Consolidated Statements of Cash Flows

	Period from 20 July 2007 (date of incorporation) to 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Six months ended 30 June 2010	Six months ended 30 June 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Loss for the period/year	(1,636)	(5,291)	(6,149)	(2,683)	(3,710)
Adjustments for:					
Depreciation of property, plant and equipment	1	4	63	22	48
Interest on amount due to a fellow subsidiary	–	1,387	3,472	1,573	1,731
Operating cash flow before movements in working capital	(1,635)	(3,900)	(2,614)	(1,088)	(1,931)
Increase in receivables related to the VPF Arrangement	–	(25,325)	(22,997)	(8,737)	(10,000)
Increase in other receivables, prepayments and deposits	(3)	(22)	(352)	(645)	(40)
Increase in amount due from a fellow subsidiary	–	–	–	–	(115)
Increase in other payables and accruals	–	–	299	145	278
NET CASH USED IN OPERATING ACTIVITIES	(1,638)	(29,247)	(25,664)	(10,325)	(11,808)
CASH USED IN INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(10)	–	(480)	(438)	–
FINANCING ACTIVITIES					
Advance from a fellow subsidiary	–	31,540	21,358	6,364	18,404
Advance from immediate holding company	1,648	3,787	19,822	7,866	7,346
Repayment to immediate holding company	–	(5,371)	(13,338)	(306)	(13,894)
NET CASH FROM FINANCING ACTIVITIES	1,648	29,956	27,842	13,924	11,856
NET INCREASE IN CASH AND CASH EQUIVALENTS	–	709	1,698	3,161	48
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	–	–	709	709	2,407
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, COMPRISING BY BANK BALANCES AND CASH	–	709	2,407	3,870	2,455

V. Notes to the Unaudited Consolidated Financial Information

1. GENERAL

On 8 July 2011, the Company, GDC Holdings and the Purchaser entered into the Disposal Agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Tech and 100% of the issued share capital of GDC Digital Cinema Network.

2. BASIS OF PREPARATION AND PRESENTATION OF THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information of GDC Digital Cinema Network and its subsidiaries has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 19 of the GEM Listing Rules, and solely for the purpose of inclusion in the circular issued by the Company in connection with the Disposal.

The amounts included in the unaudited consolidated financial information for the period from 20 July 2007 (date of incorporation) to 31 December 2008, each of the two years ended 31 December 2010 and the six months ended 30 June 2011 have been recognised and measured in accordance with the accounting policies of the Company for the financial year commencing 1 January 2011 which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, which are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

The unaudited consolidated financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 “Presentation of Financial Statements”.

In preparing the unaudited consolidated financial information, the directors of GDC Digital Cinema Network have given due and careful consideration to the Group’s future liquidity of GDC Digital Cinema Network and its subsidiaries in light of the net current liabilities position of approximately HK$1,645,000, HK$27,589,000, HK$55,522,000 and HK$63,038,000 and net liabilities position of HK$1,636,000, HK$6,927,000, HK$13,076,000 and HK$16,786,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. The unaudited consolidated financial information has been prepared on a going concern basis because GDC Tech has agreed to provide adequate funds to enable GDC Digital Cinema Network to meet in full its financial obligations as they fall due for the foreseeable future.

3. RECEIVABLES RELATED TO VPF ARRANGEMENT

The Group has signed certain Virtual Print Fee (“VPF”) agreements and exhibition agreements (collectively referred to as “VPF Arrangement”) with distributors and exhibitors for digital content (collectively referred to as “Third Parties”) in connection with the deployment of digital cinema equipment in cinemas. Under the VPF Arrangement, the Group provides: (i) assembly and integration services in respect of digital cinema equipment and install the equipment in the exhibitors’ cinemas as well as (ii) financing to the Third Parties for a portion of the agreed purchase price of this digital cinema equipment. These receivables, which are to be settled based on the usage of the digital cinema equipment within 10 years from the date of installation, bear interest at the cost of funds incurred by the Group arising from the VPF Arrangement at a fixed-rate of 10% per annum.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

On 8 July 2011, the Company, GDC Holdings and the Purchaser entered the Disposal Agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Tech and 100% of the issued share capital of GDC Digital Cinema Network.

Under the Disposal Agreement, GDC Holdings is required to procure 80% of the issued share capital of GDC Tech to be sold. As at the Latest Practicable Date, GDC Tech is a 57.75% owned subsidiary of GDC Holdings. It is the intention of GDC Holdings that all the other shareholders may, if they elect to do so, participate in the Disposal and sell GDC Tech Shares.

In the Disposal, GDC Holdings will sell: (1) a minimum of 111,262,159 GDC Tech Shares and remain as a 13.02% shareholder of GDC Tech upon Completion, on the basis that Dr. Chong does not sell his GDC Tech Shares, the Options are exercised in full prior to Completion and all the Other Shareholders sell their respective GDC Tech Shares in the Disposal; or (2) a maximum of 144,054,845 GDC Tech Shares if GDC Holdings sells all of its GDC Tech Shares.

The purchase price per Sale Share will range from approximately HK$2.82 (if the Options are exercised in full prior to Completion) to HK$2.84 (if no Options are exercised prior to Completion but are cancelled at Completion), whereas the consideration for 100% of the issued share capital of GDC Digital Cinema Network is HK$23,370,000.

Under the Disposal Agreement, GDC Tech may upon or prior to the date of Completion declare dividends to the shareholders of GDC Tech on the register as at the close of business on the day immediately preceding Completion in an aggregate amount not exceeding the lesser of; (i) the amount by which the minimum cash maintained by the GDC Tech Group as at Completion exceeds HK$25,000,000; and (ii) the amount by which the net cash of the GDC Tech Group as at Completion located outside of the PRC exceeds HK$12,500,000.

The pro forma financial information presented below is prepared to illustrate: (a) the financial position of the Remaining Group as if the Disposal had been completed on 30 June 2011; and (b) the results and cash flows of the Remaining Group as if the Disposal had been completed on 1 January 2010. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Remaining Group as at 30 June 2011 or at any future date had the Disposal been completed on 30 June 2011 or the results and cash flows of the Group for the year ended 31 December 2010 or for any future period had the Disposal been completed on 1 January 2010.

The pro forma financial information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2011 extracted from the interim report of the Company for the six months ended 30 June 2011; the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2010 extracted from the 2010 annual report of the Company; and the unaudited consolidated financial information of the GDC Tech Group set out in Appendix II to this Circular and was prepared in accordance with Rules 7.31(1) and 19.68(2)(a)(ii) of the GEM Listing Rules.

I. Unaudited Pro Forma Consolidated Statement of Financial Position as at 30 June 2011

(1) Assuming a minimum of 111,262,159 GDC Tech Shares had been sold at purchase price per Sale Share of approximately HK$2.82 (if the Options are exercised in full prior to Completion) and GDC Holdings remains a 13.02% shareholder of GDC Tech

	The Group	Pro forma adjustments						The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Non-current assets								
Property, plant and equipment	329,816	(23,603)	(374)					305,839
Investment properties	126,507	–	–					126,507
Prepaid lease payments	5,950	–	–					5,950
Available-for-sale investment	602	–	–				92,475	93,077
Interest in an associate	22,631	–	–					22,631
Other receivables	45,878	–	(45,878)					–
	531,384	(23,603)	(46,252)					554,004
Current assets								
Inventories	70,580	(70,580)	–					–
Productions work in progress	14,737	–	–					14,737
Amounts due from customers for contract work	2,840	–	–					2,840
Trade receivables	122,008	(116,559)	–					5,449
Other receivables, prepayments and deposits	53,558	(9,344)	(12,861)					31,353
Due from the GDC Tech Group	–	(77,777)	(115)	77,892				–
Due from the Remaining Group	–	(93,469)	–		93,469			–
Prepaid lease payments	133	–	–					133
Held-for-trading investments	2,018	–	–					2,018
Pledged bank deposits	27,057	(27,057)	–					–
Bank balances and cash	262,607	(234,251)	(2,455)		(83,502)	179,929	325,000	447,328
	555,538	(629,037)	(15,431)					503,858

	The Group	Pro forma adjustments						The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Current liabilities								
Advances from customers	48,109	(36,181)	–					11,928
Trade payables	36,857	(32,981)	–					3,876
Other payables and accruals	128,701	(67,843)	(577)					60,281
Due to the Remaining Group	–	(9,967)			9,967			–
Due to the GDC Tech Group	–	–	(77,892)	77,892				–
Amount due to an associate	22,132	–	–					22,132
Tax liabilities	22,758	(21,628)	–					1,130
Secured bank borrowings – due within one year	39,465	(25,007)	–					14,458
	298,022	(193,607)	(78,469)					113,805
Net current assets	257,516	(435,430)	63,038					390,053
Total assets less current liabilities	788,900	(459,033)	16,786					944,057
Capital and reserves								
Share capital	12,953	(23,635)	–				23,635	12,953
Reserves	412,044	(435,398)	16,786			295,208	464,399	753,039
Equity attributable to owners of the Company	424,997	(459,033)	16,786					765,992
Non-controlling interests	212,096	–	–			(115,279)	(70,559)	26,258
Total equity	637,093	(459,033)	16,786					792,250
Non-current liability								
Secured bank borrowing – due after one year	151,807	–	–					151,807
	788,900	(459,033)	16,786					944,057

Notes:

1. Adjustments to reflect the exclusion of the assets and liabilities of GDC Tech and its subsidiaries as at 30 June 2011, assuming that the Disposal had taken place on 30 June 2011.

2. Adjustments to reflect the exclusion of the assets and liabilities of GDC Digital Cinema Network and its subsidiaries as at 30 June 2011, assuming that the Disposal had taken place on 30 June 2011.

3. Adjustments to reflect the elimination of intercompany balances in the GDC Tech Group as at 30 June 2011.

4. Adjustments to reflect the settlement of the intercompany balances between the Remaining Group and the GDC Tech Group as at 30 June 2011 pursuant to the Disposal Agreement.

5. Adjustments to reflect the maximum amount of dividends of approximately HK$295,208,000 declared by GDC Tech as at 30 June 2011, representing the amounts of cash inflow from the settlement of the intercompany balances as at 30 June 2011 of approximately HK$83,502,000 and the amounts of bank balances and cash of the GDC Tech Group of approximately HK$236,706,000 as at 30 June 2011, less the minimum cash of HK$25,000,000 to be maintained by the GDC Tech Group pursuant to the Disposal Agreement. The dividends paid to the non-controlling shareholders of GDC Tech as at 30 June 2011 represent 39.05% of total dividends amounting to approximately HK$115,279,000.

6. Adjustments to reflect the estimated gain arising from the Disposal based on the estimated minimum net proceeds from the Disposal of 111,262,159 GDC Tech Shares and 100% of the issued share capital of GDC Digital Cinema Network of approximately HK$325,000,000, comprising estimated consideration of approximately HK$337,129,000, less estimated transaction costs (mainly legal and professional fee of approximately HK$2,000,000 and commission of approximately HK$10,129,000) for the Disposal and the Group remains as a 13.02% shareholder of GDC Tech after the Disposal as presented below. The adjusted net asset values represent the consolidated total of the net asset values of each of GDC Tech and GDC Digital Cinema Network as at 30 June 2011, less dividends declared by GDC Tech of approximately HK$295,208,000.

	GDC Tech	**GDC Digital Cinema Network**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Minimum gross proceeds from the Disposal	313,759	23,370	337,129
Fair value of the remaining 13.02% interests in GDC Tech, representing 32,792,686 GDC Tech Shares at HK$2.82	92,475	–	92,475
Share capital of the GDC Tech Group as at 30 June 2011	23,635	–	23,635
Reserves of the GDC Tech Group as at 30 June 2011	435,398	(16,786)	418,612
Dividends declared by the GDC Tech Group as per note 5	(295,208)	–	(295,208)
Net assets (liabilities) of the GDC Tech Group as at 30 June 2011	163,825	(16,786)	147,039
Non-controlling interests of the GDC Tech Group as at 30 June 2011, after dividends declared by GDC Tech of approximately HK$115,279,000	(70,559)	–	(70,559)
Adjusted net asset values as at 30 June 2011	93,266	(16,786)	76,480
Gain from the Disposal before transaction costs	312,968	40,156	353,124
Less: Transaction costs			(12,129)
Net gain from the Disposal			340,995

(2) Assuming 144,054,845 GDC Tech Shares had been sold at purchase price per Sale Share of approximately HK$2.84 (if no Options are exercised prior to Completion but are cancelled at Completion) and GDC Holdings is no longer interested in any GDC Tech Shares

	The Group	Pro forma adjustments						The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Non-current assets								
Property, plant and equipment	329,816	(23,603)	(374)					305,839
Investment properties	126,507	–	–					126,507
Prepaid lease payments	5,950	–	–					5,950
Available-for-sale investment	602	–	–					602
Interest in an associate	22,631	–	–					22,631
Other receivables	45,878	–	(45,878)					–
	531,384	(23,603)	(46,252)					461,529
Current assets								
Inventories	70,580	(70,580)	–					–
Productions work in progress	14,737	–	–					14,737
Amounts due from customers for contract work	2,840	–	–					2,840
Trade receivables	122,008	(116,559)	–					5,449
Other receivables, prepayments and deposits	53,558	(9,344)	(12,861)					31,353
Due from the GDC Tech Group	–	(77,777)	(115)	77,892				–
Due from the Remaining Group	–	(93,469)	–		93,469			–
Prepaid lease payments	133	–	–					133
Held-for-trading investments	2,018	–	–					2,018
Pledged bank deposits	27,057	(27,057)	–					–
Bank balances and cash	262,607	(234,251)	(2,455)		(83,502)	179,929	417,500	539,828
	555,538	(629,037)	(15,431)					596,358

	The Group			Pro forma adjustments				The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Current liabilities								
Advances from customers	48,109	(36,181)	–					11,928
Trade payables	36,857	(32,981)	–					3,876
Other payables and accruals	128,701	(67,843)	(577)					60,281
Due to the Remaining Group	–	(9,967)			9,967			–
Due to the GDC Tech Group	–	–	(77,892)	77,892				–
Amount due to an associate	22,132	–	–					22,132
Tax liabilities	22,758	(21,628)	–					1,130
Secured bank borrowings – due within one year	39,465	(25,007)	–					14,458
	298,022	(193,607)	(78,469)					113,805
Net current assets	257,516	(435,430)	63,038					482,553
Total assets less current liabilities	788,900	(459,033)	16,786					944,082
Capital and reserves								
Share capital	12,953	(23,635)	–				23,635	12,953
Reserves	412,044	(435,398)	16,786			295,208	464,424	753,064
Equity attributable to owners of the Company	424,997	(459,033)	16,786					766,017
Non-controlling interests	212,096	–	–			(115,279)	(70,559)	26,258
Total equity	637,093	(459,033)	16,786					792,275
Non-current liability								
Secured bank borrowing – due after one year	151,807	–	–					151,807
	788,900	(459,033)	16,786					944,082

Notes:

1. Adjustments to reflect the exclusion of the assets and liabilities of GDC Tech and its subsidiaries as at 30 June 2011, assuming that the Disposal had taken place on 30 June 2011.

2. Adjustments to reflect the exclusion of the assets and liabilities of GDC Digital Cinema Network and its subsidiaries as at 30 June 2011, assuming that the Disposal had taken place on 30 June 2011.

3. Adjustments to reflect the elimination of intercompany balances in the GDC Tech Group as at 30 June 2011.

4. Adjustments to reflect the settlement of the intercompany balances between the Remaining Group and the GDC Tech Group as at 30 June 2011 pursuant to the Disposal Agreement.

5. Adjustments to reflect the maximum amount of dividends of approximately HK$295,208,000 declared by GDC Tech as at 30 June 2011, representing the amounts of cash inflow from the settlement of the intercompany balances as at 30 June 2011 of approximately HK$83,502,000 and the amounts of bank balances and cash of the GDC Tech Group of approximately HK$236,706,000 as at 30 June 2011, less the minimum cash of HK$25,000,000 to be maintained by the GDC Tech Group pursuant to the Disposal Agreement. The dividends paid to the non-controlling shareholders of GDC Tech as at 30 June 2011 represent 39.05% of total dividends amounting to approximately HK$115,279,000.

6. Adjustments to reflect the estimated gain arising from the Disposal based on the estimated maximum net proceeds from the Disposal of 144,054,845 GDC Tech Shares and 100% of the issued share capital of GDC Digital Cinema Network of approximately HK$417,500,000, comprising estimated consideration of approximately HK$432,486,000, less estimated transaction costs (mainly legal and professional fee of approximately HK$2,000,000 and commission of approximately HK$12,986,000) for the Disposal as presented below. The adjusted net asset values represent the consolidated total of the net asset values of each of GDC Tech and GDC Digital Cinema Network as at 30 June 2011, less dividends declared by GDC Tech of approximately HK$295,208,000.

	GDC Tech	**GDC Digital Cinema Network**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Maximum gross proceeds from the Disposal	409,116	23,370	432,486
Share capital of the GDC Tech Group as at 30 June 2011	23,635	–	23,635
Reserves of the GDC Tech Group as at 30 June 2011	435,398	(16,786)	418,612
Dividends declared by the GDC Tech Group as per note 5	(295,208)	–	(295,208)
Net assets (liabilities) of the GDC Tech Group as at 30 June 2011	163,825	(16,786)	147,039
Non-controlling interests of the GDC Tech Group as at 30 June 2011, after dividends declared by GDC Tech of approximately HK$115,279,000	(70,559)	–	(70,559)
Adjusted net assets values as at 30 June 2011	93,266	(16,786)	76,480
Gain from the Disposal before transaction costs	315,850	40,156	356,006
Less: Transaction costs			(14,986)
Net gain from the Disposal			341,020

II. Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

(1) Assuming a minimum of 111,262,159 GDC Tech Shares had been sold at purchase price per Sale Share of approximately HK$2.82 (if the Options are exercised in full prior to Completion) and GDC Holdings remains a 13.02% shareholder of GDC Tech

	The Group			Pro forma adjustments			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 6)*	
Continuing operations							
Revenue	584,019	(567,006)	(4,330)	23,237			35,920
Cost of sales	(335,592)	325,711	–	(22,944)			(32,825)
Gross profit	248,427	(241,295)	(4,330)				3,095
Other income and gains	9,711	(10,853)	–	3,472	4,194		6,524
Distribution costs and selling expenses	(21,066)	15,129	–				(5,937)
Administrative expenses	(88,286)	50,597	7,007				(30,682)
Finance costs	(2,306)	803	3,472	(3,472)			(1,503)
Other expenses and losses	(16,776)	9,257	–				(7,519)
Share of loss of an associate	(106)	–	–				(106)
Share-based payment expense	(24,471)	5,911	–				(18,560)
Profit (loss) before tax	105,127	(170,451)	6,149				(54,688)
Income tax expense	(15,401)	15,233	–				(168)
Profit (loss) for the year for continuing operations	89,726	(155,218)	6,149				(54,856)
Gain on Disposal of the GDC Tech Group constituting discontinued operations	–	–	–			396,466	396,466
Profit for the year	89,726	(155,218)	6,149				341,610
Other comprehensive income:							
Exchange differences arising on translation of foreign operations	11,733	(4,012)	–				7,721
Total comprehensive income for the year	101,459	(159,230)	6,149				349,331
Profit for the year attributable to:							
Owners of the Company	31,397	(95,469)	6,149	293	4,194	396,466	343,030
Non-controlling interests	58,329	(59,749)	–				(1,420)
	89,726	(155,218)	6,149				341,610
Total comprehensive income for the year attributable to:							
Owners of the Company	41,491	(97,916)	6,149	293	4,194	396,466	350,677
Non-controlling interests	59,968	(61,314)	–				(1,346)
	101,459	(159,230)	6,149				349,331

Notes:

1. Adjustments to reflect the exclusion of the results of GDC Tech and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

2. Adjustments to reflect the exclusion of the results of GDC Digital Cinema Network and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

3. Adjustments to reflect the elimination of the intercompany transactions in the GDC Tech Group for the year ended 31 December 2010 and the reversal of elimination of unrealised profit on transactions in the GDC Tech Group .

4. Adjustments to reflect the exclusion of the elimination of the intercompany transactions between the Remaining Group and the GDC Tech Group for the year ended 31 December 2010.

5. Adjustments to reflect the maximum amount of dividends of approximately HK$150,291,000 declared by GDC Tech as at 1 January 2010, representing the amounts of cash inflow from the settlement of the intercompany balances as at 1 January 2010 of approximately HK$83,398,000 and the amounts of bank balances and cash of the GDC Tech Group of approximately HK$91,893,000 as at 1 January 2010, less the minimum cash of HK$25,000,000 to be maintained by the GDC Tech Group pursuant to the Disposal Agreement. The dividends paid to the non-controlling shareholders of GDC Tech as at 1 January 2010 represent 38.19% of total dividends amounting to approximately HK$57,396,000.

6. Adjustments to reflect the estimated gain arising from the Disposal based on the estimated minimum net proceeds from the Disposal of 111,262,159 GDC Tech Shares and 100% of the issued share capital of GDC Digital Cinema Network of approximately HK$325,000,000, comprising estimated consideration of approximately HK$337,129,000, less estimated transaction costs (mainly legal and professional fee of approximately HK$2,000,000 and commission of approximately HK$10,129,000) for the Disposal and the Group remains as a 13.02% shareholder of GDC Tech after the Disposal as presented below. The adjusted net asset values represent the consolidated total of the net asset values of each of GDC Tech and GDC Digital Cinema Network as at 1 January 2010, less dividends declared by GDC Tech of approximately HK$150,291,000.

	GDC Tech	**GDC Digital Cinema Network**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Minimum gross proceeds from the Disposal	313,759	23,370	337,129
Fair value of the remaining 13.02% interests in GDC Tech, representing 32,792,686 GDC Tech Shares at HK$2.82	92,475	–	92,475
Share capital of the GDC Tech Group as at 1 January 2010	23,305	–	23,305
Reserves of the GDC Tech Group as at 1 January 2010	172,183	(6,927)	165,256
Dividends declared by the GDC Tech Group as per note 5	(150,291)	–	(150,291)
Net assets (liabilities) of the GDC Tech Group as at 1 January 2010	45,197	(6,927)	38,270
Non-controlling interests of the GDC Tech Group as at 1 January 2010, after dividends declared by GDC Tech of approximately HK$57,396,000	(17,261)	–	(17,261)
Adjusted net asset values as at 1 January 2010	27,936	(6,927)	21,009
Gain from the Disposal before transaction costs	378,298	30,297	408,595
Less: Transaction costs			(12,129)
Net gain form the Disposal			396,466

(2) Assuming 144,054,845 GDC Tech Shares had been sold at purchase price per Sale Share of approximately HK$2.84 (if no Options are exercised prior to Completion but are cancelled at Completion) and GDC Holdings is no longer interested in any GDC Tech Shares

	The Group			Pro forma adjustment			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 6)*	
Continuing operations							
Revenue	584,019	(567,006)	(4,330)	23,237			35,920
Cost of sales	(335,592)	325,711	–	(22,944)			(32,825)
Gross profit	248,427	(241,295)	(4,330)				3,095
Other income and gains	9,711	(10,853)	–	3,472	4,194		6,524
Distribution costs and selling expenses	(21,066)	15,129	–				(5,937)
Administrative expenses	(88,286)	50,597	7,007				(30,682)
Finance costs	(2,306)	803	3,472	(3,472)			(1,503)
Other expenses and losses	(16,776)	9,257	–				(7,519)
Share of loss of an associate	(106)	–	–				(106)
Share-based payment expense	(24,471)	5,911	–				(18,560)
Profit (loss) before tax	105,127	(170,451)	6,149				(54,688)
Income tax expense	(15,401)	15,233	–				(168)
Profit (loss) for the year for continuing operations	89,726	(155,218)	6,149				(54,856)
Gain on Disposal of the GDC Tech Group constituting discontinued operations	–	–	–			396,491	396,491
Profit for the year	89,726	(155,218)	6,149				341,635
Other comprehensive income:							
Exchange differences arising on translation of foreign operations	11,733	(4,012)	–				7,721
Total comprehensive income for the year	101,459	(159,230)	6,149				349,356
Profit for the year attributable to:							
Owners of the Company	31,397	(95,469)	6,149	293	4,194	396,491	343,055
Non-controlling interests	58,329	(59,749)	–				(1,420)
	89,726	(155,218)	6,149				341,635
Total comprehensive income for the year attributable to:							
Owners of the Company	41,491	(97,916)	6,149	293	4,194	396,491	350,702
Non-controlling interests	59,968	(61,314)	–				(1,346)
	101,459	(159,230)	6,149				349,356

Notes:

1. Adjustments to reflect the exclusion of the results of GDC Tech and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

2. Adjustments to reflect the exclusion of the results of GDC Digital Cinema Network and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

3. Adjustments to reflect the elimination of the intercompany transactions in the GDC Tech Group for the year ended 31 December 2010 and the reversal of elimination of unrealised profit on transactions in the GDC Tech Group .

4. Adjustments to reflect the exclusion of the elimination of the intercompany transactions between the Remaining Group and the GDC Tech Group for the year ended 31 December 2010.

5. Adjustments to reflect the maximum amount of dividends of approximately HK$150,291,000 declared by GDC Tech as at 1 January 2010, representing the amounts of cash inflow from the settlement of the intercompany balances as at 1 January 2010 of approximately HK$83,398,000 and the amounts of bank balances and cash of the GDC Tech Group of approximately HK$91,893,000 as at 1 January 2010, less the minimum cash of HK$25,000,000 to be maintained by the GDC Tech Group pursuant to the Disposal Agreement. The dividends paid to the non-controlling shareholders of GDC Tech as at 1 January 2010 represent 38.19% of total dividends amounting to approximately HK$57,396,000.

6. Adjustments to reflect the estimated gain arising from the Disposal based on the estimated maximum net proceeds from the Disposal of 144,054,845 GDC Tech Shares and 100% of the issued share capital of GDC Digital Cinema Network of approximately HK$417,500,000, comprising estimated consideration of approximately HK$432,486,000, less estimated transaction costs (mainly legal and professional fee of approximately HK$2,000,000 and commission of approximately HK$12,986,000) for the Disposal as presented below. The adjusted net asset values represent the consolidated total of the net asset values of each of GDC Tech and GDC Digital Cinema Network as at 1 January 2010, less dividends declared by GDC Tech of approximately HK$150,291,000.

	GDC Tech	**GDC Digital Cinema Network**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Maximum gross proceeds from the Disposal	409,116	23,370	432,486
Share capital of the GDC Tech Group as at 1 January 2010	23,305	–	23,305
Reserves of the GDC Tech Group as at 1 January 2010	172,183	(6,927)	165,256
Dividends declared by the GDC Tech Group as per note 5	(150,291)	–	(150,291)
Net assets (liabilities) of the GDC Tech Group as at 1 January 2010	45,197	(6,927)	38,270
Non-controlling interests of the GDC Tech Group as at 1 January 2010, after dividends declared by GDC Tech of approximately HK$57,396,000	(17,261)	–	(17,261)
Adjusted net asset values as at 1 January 2010	27,936	(6,927)	21,009
Gain from the Disposal before transaction costs	381,180	30,297	411,477
Less: Transaction costs			(14,986)
Net gain from the Disposal			396,491

III. Unaudited Pro Forma Consolidated Statement of Cash Flows for the year ended 31 December 2010

(1) Assuming a minimum of 111,262,159 GDC Tech Shares had been sold at purchase price per Sale Share of approximately HK$2.82 (if the Options are exercised in full prior to Completion) and GDC Holdings remains a 13.02% shareholder of GDC Tech

	The Group	Pro forma adjustments						The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Net cash from (used in) operating activities	**68,547**	**(122,717)**	**25,664**					**(28,506)**
Investing activities								
Purchase of property, plant and equipment	(157,992)	4,664	480					(152,848)
Acquisition of a subsidiary	(63,149)	–	–					(63,149)
Increase in pledged bank deposits	(44,218)	44,218	–					–
Purchase of structured deposits	(41,169)	41,169	–					–
Additions in investment properties	(8,934)	–	–					(8,934)
Increase in amount due from immediate holding company	–	8,306	–		(8,306)			–
Increase in amounts due from fellow subsidiaries	–	21,358	–	(21,358)				–
Proceeds from Disposal of the GDC Tech Group, net of transaction costs and bank balances and cash disposed of	–	–	–				300,000	300,000
Proceeds from redemption of a convertible loan receivable	113,382	–	–					113,382
Interest received	2,426	(1,744)	–					682
Net cash (used in) from investing activities	**(199,654)**	**117,971**	**480**					**189,133**
Financing activities								
New bank loans raised	194,754	(42,990)	–					151,764
Proceeds from exercise of share options of a subsidiary	6,600	(6,600)	–					–
Proceeds from issue of the Company's shares upon exercise of its share options	28	–	–					28
Advance from a fellow subsidiary	–	–	(21,358)	21,358				–
Advance from immediate holding company	–	–	(19,822)		19,822			–
Repayment to immediate holding company	–	–	13,338		(13,338)			–
Dividends paid to non-controlling shareholders of the GDC Tech Group						(57,396)		(57,396)
Interest paid	(6,244)	803	–					(5,441)
Net cash from financing activities	**195,138**	**(48,787)**	**(27,842)**					**88,955**
Net increase in cash and cash equivalents	**64,031**	**(53,533)**	**(1,698)**					**249,582**
Cash and cash equivalents at beginning of the year	**166,604**	**–**	**–**					**166,604**
Effect of foreign exchange rate changes	**5,018**	**(4,012)**	**–**					**1,006**
Cash and cash equivalents at end of the year, comprising bank balances and cash	**235,653**	**(57,545)**	**(1,698)**					**417,192**

Notes:

1. Adjustments to reflect the exclusion of the cash flows of GDC Tech and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

2. Adjustments to reflect the exclusion of the cash flows of GDC Digital Cinema Network and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

3. Adjustments to reflect the elimination of the intercompany cash flows in the GDC Tech Group for the year ended 31 December 2010.

4. Adjustments to reflect the reversal of the settlement of the intercompany balances between the Remaining Group and the GDC Tech Group for the year ended 31 December 2010.

5. Adjustments to reflect the dividends paid by GDC Tech as at 1 January 2010 to its non-controlling shareholders pursuant to the Disposal Agreement.

6. Adjustments to reflect the estimated minimum net proceeds from the Disposal of approximately HK$325,000,000, comprising estimated consideration of approximately HK$337,129,000, less estimated transaction costs (mainly legal and professional fee of approximately HK$2,000,000 and commission of approximately HK$10,129,000), less the minimum cash of HK$25,000,000 maintained by the GDC Tech Group.

(2) Assuming 144,054,845 GDC Tech Shares had been sold at purchase price per Sale Share of approximately HK$2.84 (if no Options are exercised prior to Completion but are cancelled at Completion) and GDC Holdings is no longer interested in any GDC Tech Shares

	The Group			Pro forma adjustments				The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Net cash from (used in) operating activities	**68,547**	**(122,717)**	**25,664**					**(28,506)**
Investing activities								
Purchase of property, plant and equipment	(157,992)	4,664	480					(152,848)
Acquisition of a subsidiary	(63,149)	–	–					(63,149)
Increase in pledged bank deposits	(44,218)	44,218	–					–
Purchase of structured deposits	(41,169)	41,169	–					–
Additions in investment properties	(8,934)	–	–					(8,934)
Increase in amount due from immediate holding company	–	8,306	–		(8,306)			–
Increase in amount due from fellow subsidiaries	–	21,358	–	(21,358)				–
Proceeds from Disposal of the GDC Tech Group, net of transaction costs and bank balances and cash disposed of	–	–	–				392,500	392,500
Proceeds from redemption of a convertible loan receivable	113,382	–	–					113,382
Interest received	2,426	(1,744)	–					682
Net cash (used in) from investing activities	**(199,654)**	**117,971**	**480**					**281,633**

	The Group	Pro forma adjustments						The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Financing activities								
New bank loans raised	194,754	(42,990)	–					151,764
Proceeds from exercise of share options of a subsidiary	6,600	(6,600)	–					–
Proceeds from issue of the Company's shares upon exercise of its share options	28	–	–					28
Advance from a fellow subsidiary	–	–	(21,358)	21,358				–
Advance from immediate holding company	–	–	(19,822)		19,822			–
Repayment to immediate holding company	–	–	13,338		(13,338)			–
Dividends paid to non-controlling shareholders of the GDC Tech Group						(57,396)		(57,396)
Interest paid	(6,244)	803	–					(5,441)
Net cash from financing activities	**195,138**	**(48,787)**	**(27,842)**					**88,955**
Net increase in cash and cash equivalents	**64,031**	**(53,533)**	**(1,698)**					**342,082**
Cash and cash equivalents at beginning of the year	**166,604**	**–**	**–**					**166,604**
Effect of foreign exchange rate changes	**5,018**	**(4,012)**	**–**					**1,006**
Cash and cash equivalents at end of the year, comprising bank balances and cash	**235,653**	**(57,545)**	**(1,698)**					**509,692**

Notes:

1. Adjustments to reflect the exclusion of the cash flows of GDC Tech and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

2. Adjustments to reflect the exclusion of the cash flows of GDC Digital Cinema Network and its subsidiaries for the year ended 31 December 2010, assuming that the Disposal had taken place on 1 January 2010.

3. Adjustments to reflect the elimination of the intercompany cash flows in the GDC Tech Group for the year ended 31 December 2010.

4. Adjustments to reflect the reversal of the settlement of the intercompany balances between the Remaining Group and the GDC Tech Group for the year ended 31 December 2010.

5. Adjustments to reflect the dividends paid by GDC Tech as at 1 January 2010 to its non-controlling shareholders pursuant to the Disposal Agreement.

6. Adjustments to reflect the estimated maximum net proceeds from the Disposal of approximately HK$417,500,000, comprising estimated consideration of approximately HK$432,486,000, less estimated transaction costs (mainly legal and professional fee of approximately HK$2,000,000 and commission of approximately HK$12,986,000), less the minimum cash of HK$25,000,000 maintained by the GDC Tech Group.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the text of the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Remaining Group as set out in this Appendix for the purpose of incorporation into the Circular.

Deloitte.
德勤

TO THE DIRECTORS OF GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Global Digital Creations Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the disposal of GDC Technology Limited and GDC Digital Cinema Network Limited and their respective subsidiaries (the "Disposal") might have affected the financial information presented, for inclusion in Appendix III of the circular dated 17 August 2011 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 61 to 74 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2011 or any future date; or
- the results and cash flows of the Group for the year ended 31 December 2010 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
17 August 2011

RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 Circular 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 document misleading.

SHARE CAPITAL

The Company

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:	*HK$*
2,400,000,000 Shares of HK$0.01 each	24,000,000
Issued and fully paid:	
1,295,255,540 Shares of HK$0.01 each	12,952,555

The entire issued share capital of the Company is listed on GEM. No part of the share or loan capital of the Company is listed on any other stock exchange other than the Stock Exchange. Shares are freely transferable.

DISCLOSURE OF INTERESTS

(a) The Directors' or chief executives' interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

(1) 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 Company: Interests in shares	Interests under equity derivatives*	Total interests	Approximate percentage of issued share capital of the Company
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%
Prof. 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.

(2) Long positions in the shares and underlying shares of GDC Tech, an associated corporation of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares held in GDC Tech: Interests in shares and total interests	Approximate percentage of issued share capital of GDC Tech
Mr. Li Shaofeng	Beneficial owner	2,300,000	0.92%
Mr. Chen Zheng	Beneficial owner	11,883,334	4.76%
Mr. Jin Guo Ping	Beneficial owner	400,000	0.16%
Mr. Leung Shun Sang, Tony	Beneficial owner	4,780,000	1.91%
Mr. Kwong Che Keung, Gordon	Beneficial owner	2,071,667	0.83%
Mr. Hui Hung, Stephen	Beneficial owner	365,000	0.14%
Prof. Japhet Sebastian Law	Beneficial owner	200,000	0.08%

(b) Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, no person, other than a Director, or chief executive of the Company, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

Long positions in the Shares

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

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant remember of the Group within one year without payment of compensation, other than statutory compensation.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date which are, or may be, material:

(a) the Disposal Agreement;

(b) the placing agreement and the supplemental agreement entered on 12 July 2011 and 13 July 2011 between the Company and Daily Growth Securities Limited, the placing agent, in respect of placing of 220,000,000 new Shares on a best effort basis at HK$0.35 per Share;

(c) the subscription agreement entered on 12 July 2011 between the Company, Mr. Chen Zheng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Professor Japhet Sebastian Law in respect of subscribing 223,000,000 new Shares at HK$0.35 per Share;

(d) the construction contract entered on 10 January 2011 between 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*), a non-wholly owned subsidiary of the Company, 珠江電影製片有限公司 (Pearl River Film Production Limited*) and 廣東省南興建築工程有限公司 (Guangdong Province Nanxin Construction Engineering Co., Ltd.*) in respect of the construction work for the redevelopment of Phase I of 珠影文化產業園 (Pearl River Film Cultural Park*) at an aggregate consideration of approximately HK$92.0 million; and

(e) the sale and purchase agreement entered on 30 March 2010 between Shougang GDC Media Holding Limited, a wholly-owned subsidiary of the Company, and 徐丹 (Xu Dan*) in respect of acquisition of 68% of the registered capital of 廣東時尚置業有限公司 (Guangdong Shishang Zhiye Investment Co., Ltd.*) for consideration of approximately HK$63.7 million.

EXPERTS

The following are the qualification of the experts who have given opinions or advice which are contained in this Circular:

Name	Qualifications
OSK	a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

Each of OSK and Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of OSK and Deloitte Touche Tohmatsu does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

LITIGATION

The Company received an original complaint in April 2010, a first amended complaint in July 2010 and a second amended compliant in March 2011 for damages and injunctive relief, and demand for jury trial (the "Proceeding") filed with the District Court, Central District of California Western Division of the United States (the "Court") by X6D Limited, X6D USA Inc. and XpanD, Inc. (collectively, the "X6D") against, among others, the Company and its subsidiaries namely GDC Tech, GDC Technology China Limited, GDC Technology (USA), LLC and GDC Technology of America LLC (collectively, the "Defendants") for copyright infringement, trademark and trade dress infringement, patent infringement, misappropriation of trade secrets and statutory unfair competition in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses is not a core business of the Group.

The Group filed its answer and counterclaims in November 2010 and amended answers and counterclaims in January 2011 and April 2011 denying X6D's allegations, asserting various affirmative defenses and asserting eight counterclaims against X6D generally that, among others, X6D does not own any valid intellectual property rights that cover the Defendants' 3D glasses and X6D wrongfully and intentionally interfered with the Defendants' prospective business relations with their potential customers. In January 2011, X6D filed its answer to the counterclaims denying the Defendants' allegations and asserting various affirmative defenses.

A Joint Rule 26 Statement was submitted to the Court in January 2011 and the Court issued a scheduling order in February 2011 and 16 May 2011 that the motion for summary judgment shall be filed by no later than 30 November 2011. From February 2011 onwards, the parties have served and exchanged a number of interrogatories, responses and supplemental responses as part of the ongoing discovery.

In May 2011, X6D filed with the United States Patent & Trademark Office ("PTO") re-issue requested for all three of its design patents. In its re-issue requests, X6D included 56 new drawings, and numerous additional prior art references. X6D also stated, repeatedly for each patent, that the patents were "inoperative or invalid" and have a "defective specification or drawings". In June 2011, the Defendants filed a motion to stay the litigation on the ground that the patent claims were in flux due to the re-issue applications, and that the same facts applied to the validity of all of X6D's intellectual property and trade secrets claims, and all claims involved common products. X6D filed its opposition to the motion in July 2011. The Court has not ruled on the motion up to the Latest Practicable Date.

No trial date has been set up to the Latest Practicable Date.

Save as disclosed above and so far as the Directors are aware, as at the Latest Practicable Date no member of the Group was engaged in litigation or arbitration of material importance and no litigation/arbitration or claim of material importance was pending or threatened against any member of the Group.

DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Save as disclosed in the letter from the Board, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this Circular and which is significant in relation to the business of the Group.

Save as disclosed in the letter from the Board, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

GENERAL

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The head office and principal place of business of the Company in Hong Kong is situated at Unit 1-7, 20/F, Kodak House II, 39 Healthy Street East, North Point, Hong Kong.

(b) In compliance with Rules 5.28 and 5.29 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee"). 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 Group's annual report, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The Audit Committee comprises Mr. Kwong Che Keung, Gordon, Mr. Hui Hung, Stephen and Prof. Japhet Sebastian Law, all of whom are independent non-executive Directors. Biographical details of the members of the Audit Committee are set out in pages 5 and 6 of the 2010 annual report of the Company and changes of Directors' information since the date of the 2010 annual report of the Company are set out in page 36 of the 2011 interim report of the Company.

(c) The company secretary of the Company is Mr. Chiu Ming Kin. Mr. Chiu Ming Kin is a fellow member of each of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(d) The compliance officer of the Company is Mr. Chen Zheng. Mr. Chen is also an Executive Director. The Company does not have a compliance adviser within the meaning of Rule 6A.19 of the GEM Listing Rules.

(e) In the event of inconsistency, the English texts of this Circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

(f) Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Unit 1-7, 20/F, Kodak House II, 39 Healthy Street East, North Point, Hong Kong during normal business hours from the date of this Circular up to and including the date of the SGM and at the SGM:

(i) the conditional sale and purchase agreement dated 8 July 2011 entered into among the Company, GDC Holdings and the Purchaser;

(ii) the review report on the unaudited consolidated financial information of GDC Tech, the text of which is set out in Appendix II to this Circular;

(iii) the review report on the unaudited consolidated financial information of GDC Digital Cinema Network, the text of which is set out in Appendix II to this Circular;

(iv) the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this Circular;

(v) the written consents referred to under the paragraph headed "Experts" in this Appendix;

(vi) the letter from the OSK, the text of with is set out on pages 18 and 37 in this Circular;

(vii) the bye-laws of the Company;

(viii) each of the material contracts as set out under the paragraph headed "Material Contracts" in this Appendix;

(ix) the annual reports of the Company for the two years ended 31 December 2010 and the interim report of the Company for the six months ended 30 June 2011; and

(x) this Circular.

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)

NOTICE IS HEREBY GIVEN that the special general meeting of Global Digital Creations Holdings Limited (the "Company") will be held at Oasis Room, 8/F., Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 2 September 2011 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:–

(a) the agreement for the sale and purchase of shares in GDC Technology Limited and GDC Digital Network Cinema Limited dated 8 July 2011 (the "Disposal Agreement") between GDC Holdings Limited, Global Digital Creations Holdings Limited and CAG Digital Investment Holdings Limited, as amended from time to time (copy of which has been produced to this meeting marked "A" and initialed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents which he or she considers necessary or expedient for the implementation of and giving effect to the Disposal Agreement and the transactions contemplated thereunder.

By Order of the Board
Global Digital Creations Holdings Limited
Li Shaofeng
Chairman

Hong Kong, 17 August 2011

* *For identification purposes only*

Notes:

(1) A shareholder entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy needs not be a shareholder of the Company.

(2) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.

(3) The register of members of the Company will be closed from Thursday, 1 September 2011 to Friday, 2 September 2011, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for attending and voting at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 31 August 2011.

(4) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be lodged at the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof (as the case may be).

(5) Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

(6) Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the above meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

(7) As at the date of this notice, the board of directors of the Company comprises Mr. Li Shaofeng (Chairman and Executive Director), Mr. Chen Zheng (Managing Director and Executive Director), Mr. Jin Guo Ping (Deputy Managing Director and Executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Kwong Che Keung, Gordon (Independent non-executive Director), Mr. Hui Hung, Stephen (Independent non-executive Director) and Prof. Japhet Sebastian Law (Independent non-executive Director).