



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)

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2012

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This announcement, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

* For identification purpose only

FIRST QUARTERLY RESULTS

The board of Directors of the Company (the “Board”) hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2012 with comparative figures for the corresponding period in 2011.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2012

		Three months ended 31 March	
	NOTES	2012 HK\$'000	2011 HK\$'000 (Restated)
<i>Continuing operations</i>			
Revenue	3	19,429	8,763
Cost of sales		<u>(13,957)</u>	<u>(10,000)</u>
Gross profit (loss)		5,472	(1,237)
Other income and gains	4	4,765	968
Distribution costs and selling expenses		(1,504)	(2,234)
Administrative expenses		(16,633)	(12,511)
Finance costs	5	(2,993)	(2,492)
Changes in fair value of held-for-trading investments		(4,431)	(526)
Share of loss of an associate		<u>–</u>	<u>(35)</u>
Loss before tax		(15,324)	(18,067)
Income tax expense	6	<u>–</u>	<u>(36)</u>
Loss for the period from continuing operations		(15,324)	(18,103)
<i>Discontinued operations</i>			
Profit for the period from discontinued operations	7	<u>–</u>	<u>33,563</u>
(Loss) profit for the period		<u>(15,324)</u>	<u>15,460</u>
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		<u>–</u>	<u>3,722</u>
Total comprehensive (expense) income for the period		<u><u>(15,324)</u></u>	<u><u>19,182</u></u>

		Three months ended	
		31 March	
	<i>NOTES</i>	2012	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
(Loss) profit for the period attributable to:			
Owners of the Company			
– Loss for the period from continuing operations		(14,270)	(17,689)
– Profit for the period from discontinued operations		<u>–</u>	<u>21,149</u>
		<u>(14,270)</u>	<u>3,460</u>
Non-controlling interests			
– Loss for the period from continuing operations		(1,054)	(414)
– Profit for the period from discontinued operations		<u>–</u>	<u>12,414</u>
		<u>(1,054)</u>	<u>12,000</u>
		<u><u>(15,324)</u></u>	<u><u>15,460</u></u>
Total comprehensive (expense) income			
for the period attributable to:			
Owners of the Company		(14,270)	6,348
Non-controlling interests		<u>(1,054)</u>	<u>12,834</u>
		<u><u>(15,324)</u></u>	<u><u>19,182</u></u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share	8		
<i>From continuing and discontinued operations</i>			
Basic and diluted		<u><u>(0.94)</u></u>	<u><u>0.27</u></u>
<i>From continuing operations</i>			
Basic and diluted		<u><u>(0.94)</u></u>	<u><u>(1.37)</u></u>

NOTES:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the unaudited condensed consolidated statement of comprehensive income for the three months ended 31 March 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the financial year beginning on 1 January 2012. The application of these new and revised HKFRSs in the current period had no material effect on the unaudited condensed consolidated statement of comprehensive income.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 1	Government Loans ²
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ¹
HKAS 19 (Revised 2011)	Employee Benefits ²
HKAS 27 (Revised 2011)	Separate Financial Statements ²
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ³
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

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

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

³ Effective for annual periods beginning on or after 1 January 2014.

⁴ Effective for annual periods beginning on or after 1 January 2015.

3. REVENUE

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

	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
Revenue from contracts for computer graphic creation and production	8,298	4,500
Rental income	6,944	192
Training fee	4,187	4,071
	<u>19,429</u>	<u>8,763</u>

4. OTHER INCOME AND GAINS

	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
<i>Continuing operations</i>		
Government grants	2,804	299
Interest income	1,854	229
Others	107	440
	<u>4,765</u>	<u>968</u>

5. FINANCE COSTS

	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
<i>Continuing operations</i>		
Interest on:		
Bank borrowing		
– wholly repayable within five years	2,993	–
– not wholly repayable within five years	–	2,492
	<u>2,993</u>	<u>2,492</u>

6. INCOME TAX EXPENSE

Three months ended	
31 March	
2012	2011
HK\$'000	HK\$'000

Continuing operations

Current Tax:

PRC Enterprise Income Tax ("EIT")	<u> -</u>	<u> 36</u>
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No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated statement of comprehensive income for both periods as the Group had no assessable profit from continuing operations arising in Hong Kong.

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

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate progressively increased to 25% over a five-year transitional period. The tax concession for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the EIT Law based on the revised income tax rate. For the three months ended 31 March 2012, the relevant tax rates for the Group's subsidiaries in the PRC were 25% (2011: 24% to 25%).

7. DISCONTINUED OPERATIONS

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

The Disposal was completed on 6 September 2011. The Group received a consideration for the Disposal of approximately HK\$347,547,000. The Group now holds approximately 11.93% of the issued share capital of GDC Tech and does not hold any interest in GDC DCN. Accordingly, the two operating segments, namely digital content distribution and exhibitions and deployment of digital cinema network run by GDC Tech Group and GDC DCN Group, were considered as discontinued operations since 6 September 2011.

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

The combined results of the discontinued operations for the three months ended 31 March 2011 were as follows:

	<i>HK\$'000</i>
Revenue	125,500
Cost of sales	<u>(62,716)</u>
Gross profit	62,784
Other income and gains	759
Distribution costs and selling expenses	(5,789)
Administrative expenses	(15,575)
Finance costs	(105)
Research and development costs	<u>(2,147)</u>
Profit before tax	39,927
Income tax expense	<u>(6,364)</u>
Profit from discontinued operations	<u><u>33,563</u></u>

8. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

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

	Three months ended	
	31 March	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the period attributable to owners of the Company)	<u><u>(14,270)</u></u>	<u><u>3,460</u></u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,518,256	1,295,256
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>—</u>	<u>3,339</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u><u>1,518,256</u></u>	<u><u>1,298,595</u></u>

From continuing and discontinued operations (continued)

The effect of incremental shares from assumed exercise of share options have been excluded from calculation of the diluted loss per share from continuing and discontinued operations for the three months ended 31 March 2012 because their assumed exercise would result in decrease in loss per share from continuing and discontinued operations.

From continuing operations

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

	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the period from continuing operations attributable to owners of the Company)	<u><u>(14,270)</u></u>	<u><u>(17,689)</u></u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u><u>1,518,256</u></u>	<u><u>1,295,256</u></u>

The effect of incremental shares from assumed exercise of share options have been excluded from calculation of the diluted loss per share from continuing operations for the three months ended 31 March 2011 and 2012 because their assumed exercise would result in decrease in loss per share from continuing operations.

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium reserve HK\$'000	Capital Contributed reserve HK\$'000	surplus reserve HK\$'000	Statutory reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Attributable		Non-controlling interests HK\$'000	Total HK\$'000
									Retained earnings HK\$'000	to owners of the Company HK\$'000		
At 1 January 2012	15,183	75,856	445	245,881	680	40,890	44,568	-	409,595	833,098	25,355	858,453
Loss for the period and total comprehensive expense for the period	-	-	-	-	-	-	-	-	(14,270)	(14,270)	(1,054)	(15,324)
Subtotal	15,183	75,856	445	245,881	680	40,890	44,568	-	395,325	818,828	24,301	843,129
Lapse of share options granted	-	-	-	-	-	(107)	-	-	107	-	-	-
At 31 March 2012	<u>15,183</u>	<u>75,856</u>	<u>445</u>	<u>245,881</u>	<u>680</u>	<u>40,783</u>	<u>44,568</u>	<u>-</u>	<u>395,432</u>	<u>818,828</u>	<u>24,301</u>	<u>843,129</u>
At 1 January 2011	12,953	36	445	245,881	6,362	41,104	31,659	(42,140)	97,478	393,778	176,612	570,390
Profit for the period	-	-	-	-	-	-	-	-	3,460	3,460	12,000	15,460
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	2,888	-	-	2,888	834	3,722
Total comprehensive income for the period	-	-	-	-	-	-	2,888	-	3,460	6,348	12,834	19,182
At 31 March 2011	<u>12,953</u>	<u>36</u>	<u>445</u>	<u>245,881</u>	<u>6,362</u>	<u>41,104</u>	<u>34,547</u>	<u>(42,140)</u>	<u>100,938</u>	<u>400,126</u>	<u>189,446</u>	<u>589,572</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2012 (Three months ended 31 March 2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue from continuing operations for the three months ended 31 March 2012 was HK\$19,429,000, when compared with that of HK\$8,763,000 for the corresponding period in the year 2011, representing an increase of 122%. The significant increase was mainly attributable to an increase in rental income and revenue from contracts for computer graphic (“CG”) creation and production by HK\$6,752,000 and HK\$3,798,000 respectively.

Cost of sales from continuing operations for the three months ended 31 March 2012 amounted to HK\$13,957,000, when compared with that of HK\$10,000,000 for the corresponding period in the year 2011, representing an increase of 40%. The increase was mainly due to the depreciation amounting to HK\$2,471,000 for the Shenzhen headquarters building which started to generate the rental income for the Group since the second quarter of year 2011.

The Group recorded a gross profit from continuing operations of HK\$5,472,000 for the three months ended 31 March 2012 as compared with the gross loss of HK\$1,237,000 for the corresponding period in the year 2011. The Group’s gross profit margin of continuing operations for the three months ended 31 March 2012 amounted to 28% (Three months ended 31 March 2011: gross loss of 14%). The significant improvement in gross profit margin was mainly attributable to the increase in rental income and the fact that the Group worked on more CG production projects with higher profit margin.

Other income and gains from continuing operations for the three months ended 31 March 2012 amounted to HK\$4,765,000 (Three months ended 31 March 2011: HK\$968,000), representing an increase of 392%. The increase was mainly due to increase in government grants and interest income by HK\$2,505,000 and HK\$1,625,000 respectively.

Distribution costs and selling expenses from continuing operations for the three months ended 31 March 2012 amounted to HK\$1,504,000 (Three months ended 31 March 2011: HK\$2,234,000), representing a decrease of HK\$730,000. The decrease was mainly due to decrease in the marketing expense spent during the period.

Administrative expenses of continuing operations for the three months ended 31 March 2012 amounted to HK\$16,633,000 (Three months ended 31 March 2011: HK\$12,511,000), representing an increase of 33%. The increase was mainly due to higher staff costs as a result of the growth in the scale of operations of the Group.

Finance costs for continuing operations for the three months ended 31 March 2012 of HK\$2,993,000 (Three months ended 31 March 2011: HK\$2,492,000) mainly included interest on bank borrowing for the construction of the headquarters building in Shenzhen that was not eligible for capitalisation after the completion of the construction.

The Group recorded changes in fair value of held-for-trading investments for the three months ended 31 March 2012 of HK\$4,431,000 (Three months ended 31 March 2011: HK\$526,000), representing an increase of HK\$3,905,000. The expense was due to the decrease in market price of the held-for-trading investments during the period.

Overall, the Group recorded loss attributable to owners of the Company of HK\$14,270,000 for the three months ended 31 March 2012, as compared with the profit attributable to owners of the Company of HK\$3,460,000 for the corresponding period in the year 2011. In the corresponding period in year 2011, profit attributable to owners of the Company included HK\$21,149,000 contributed by the Group's digital content distribution and exhibitions and deployment of digital cinema network operations, which have been discontinued following the disposal of such business by the Group in September 2011.

Basic and diluted loss per share from continuing and discontinued operations for the three months ended 31 March 2012 amounted to HK cents 0.94 (Basic and diluted earnings per share for the three months ended 31 March 2011: HK cents 0.27). Basic and diluted loss per share from continuing operations for the three months ended 31 March 2012 amounted to HK cents 0.94 (Three months ended 31 March 2011: HK cents 1.37), representing a decrease of 31% when compared with that for the corresponding period in the year 2011.

BUSINESS REVIEW AND OUTLOOK

CG Creation and Production Division

For the three months ended 31 March 2012, revenue from CG creation and production division was HK\$15,087,000, representing a significant increase of HK\$10,587,000 when compared with that of HK\$4,500,000 for the corresponding period in the year 2011. The increase comprised increase in rental income and revenue from contracts from computer graphic creation and production by HK\$6,789,000 and HK\$3,798,000 respectively.

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

The Group's diversification into intellectual property investment has achieved a preliminary success. One 3D-animated film is about to be publicly released in the PRC in the second quarter of 2012. One CG-animated television series has also commenced domestic and overseas distribution while certain countries and regions have confirmed their purchases. In addition, the Group has initiated the planning of new intellectual property animation projects, including certain projects which have started production of trailers or negotiations on cooperation with several companies showing interests, and intends to expand to the animation related businesses.

In view of the broadening applications of CG creation and production and the growing relevant businesses in the PRC, the Group made adjustment and consolidation of its production business. The subsidiaries in Chongqing have ceased operations, and two new subsidiaries have been established respectively in Beijing and Shenzhen to expand new businesses. After completing a creative production project on a large theme park in Shenzhen last year, the Group has started production of another new project in April with certain projects currently in negotiations.

In March 2012, the Group's subsidiary Institute of Digital Media Technology (Shenzhen) Limited was named the "Top 10 Competitive Service Providers and Traders in Shenzhen".

CG Training

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

The CG training division is attempting to join forces with film and animation producers and game developers to provide specially tailored training courses targeting their on-post requirements, so as to further shorten students' time to get started in their career and expand the capacity of employers.

In addition, the Group continues to cooperate with colleges in the PRC to organise "Training on Campus" and "Skills and Qualifications" training programmes for their students in achieving "One Course, Multiple Certifications" and preparing for immediate employment after graduation.

Cultural Park

The redevelopment project of Phase I of the Pearl River Film Cultural Park was smoothly roofed in late 2011, and has commenced equipment installation and decorations. With the smooth progress of business promotion for the Phase I of the project, the Group has entered into letters of intents of lease with a number of renowned domestic and foreign brands, which are expected to forge the cultural park as a fashion lifestyle centre with strong atmosphere of Guangzhou culture in line with its overall positioning.

The redevelopment of other phases of the Pearl River Film Cultural Park has also proceeded well in approval procedures, with interim approvals obtained from relevant regulatory authorities of the PRC. Meanwhile, the Group has commenced concept designs with several renowned architects, commercial consultants and property management companies for the redevelopment of other phases of the Pearl River Film Cultural Park. The redeveloped Pearl River Film Cultural Park includes, subject to approval, a commercial complex comprising cinema, shops, restaurants and recreational zones, and a new multi-storey office tower.

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the three months ended 31 March 2012.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules throughout the three months ended 31 March 2012.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all of the Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the three months ended 31 March 2012.

AUDIT COMMITTEE

The Group's first quarterly results for the three months ended 31 March 2012 was unaudited. The Company's audit committee (the "Audit Committee") has reviewed the 2012 unaudited first quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company for, amongst other things, reviewing the unaudited first quarterly results of the Group for the three months ended 31 March 2012.

APPRECIATION

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

By Order of the Board

Li Shaofeng

Chairman

Hong Kong, 8 May 2012

As at the date of this announcement, the Board 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) and Prof. Japhet Sebastian Law (Independent non-executive Director).

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.gdc-world.com.