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GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司*

(incorporated in Bermuda with limited liability)

ANNOUNCEMENT

**CHANGES IN APPLICATION OF THE IPO PROCEEDS
AND THE STATEMENT OF BUSINESS OBJECTIVES**

The Board announces changes in the application of net proceeds raised from the listing of the Shares by way of Public Offer and Placing on GEM of the Stock Exchange in August 2003, and its statement of business objectives as set out in the Prospectus.

Investors/Shareholders are advised to exercise extreme caution in dealing in the securities of the Company.

Further to the results announcement and the third quarterly report of the Company for the nine months ended 30 September 2003 (the “Third Quarterly Report”) dated 11 November 2003 and released on 13 November 2003 respectively, the board of directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company” and together with its subsidiaries, the “Group”) announces changes in the application of net proceeds (the “IPO Proceeds”) raised from the listing of the Shares by way of Public Offer and Placing on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in August 2003 (the “IPO”) and its statement of business objectives as set out in the Prospectus.

Unless otherwise defined, terms used herein shall have the same meanings as those defined in the prospectus of the Company dated 23 July 2003 (the “Prospectus”).

ACCELERATED USE OF THE IPO PROCEEDS

A breakdown of the use of the IPO Proceeds as stated in the Prospectus and the amounts utilised up to 31 December 2003 is summarised as follows:

	Use of the IPO Proceeds up to the period ended 31 December 2003 as stated in the Prospectus HK\$'000	Amounts utilised up to 31 December 2003 HK\$'000
Strengthening management and international marketing team	4,900	3,276
Developing digital cinema distribution network (Note 1)	1,500	3,099
Research and development of digital cinema technologies	2,400	2,425
Production maintenance and co-financing (Note 2)	3,200	20,918
Working capital	2,500	3,134
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Total	14,500	32,852
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EXPLANATIONS FOR THE ACCELERATED USE OF THE IPO PROCEEDS AND CHANGES IN THE STATEMENTS OF BUSINESS OBJECTIVES

Note 1: Developing digital cinema distribution network

Since the publication of the Prospectus, the Group experienced certain changes in the market conditions brought about by technological advancement in the digital cinema (“D-cinema”) marketplace. As stated in the section headed “Statement of business objectives” in the Prospectus, the Group had, under the franchise business model, originally targeted the signing up to around 50 and 25 cinemas in the PRC and the rest of Asia respectively for the supply of digital projection and playback equipment by the end of 31 December 2003. The Group has delayed the implementation of the franchise business model for digital cinemas in the PRC and the rest of Asia for the reasons set forth below.

The franchise model for D-cinema was based on the use of projectors which carry the technical standard approved by the Hollywood major movie distributors. The digital distribution of major films, however, did not accelerate as anticipated but instead, the Digital Cinema Initiative (“DCI”) formed by the major movie studios in the US decided in the third quarter of 2003, to raise the bar of D-cinema standard to a resolution of 2K (which requires a projector at the resolution of 1,080 x 2,048 lines). Although the Group’s product has already been upgraded to the 2K resolution standard in the third quarter of 2003, Texas Instruments, the main supplier of the digital-light-processor (“DLP”) (which is a component in the Group’s product, DSR™ servers), only had small quantities of the 2K DLP, and BARCO, a leading projector

manufacturer, was only able late last year to produce projectors with resolution standard of 2K in very small quantities. Due to the unavailability of such key component for the servers and projectors of matching technical capability, the Group had to slow down the rollout plan of the franchise model for D-cinema. The existing D-cinema projectors could only project at a resolution of up to 1.3K, and the market had to wait for the new 2K projectors (assuming that Hollywood's major studios would actually settle on the 2K standards). The execution of the franchise model had, therefore, been delayed, pending the wider availability of the DLP and 2K projectors.

Additional amounts of resource from the IPO Proceeds were applied to "Developing digital cinema distribution network" because of the lower than expected revenue and cash inflow from this line of business. Since the Group did not have alternative source of finance (such as bank financing) and the limited cash resources generated internally during the initial phase of operation, the Group had to apply the IPO Proceeds to finance the development of D-cinema distribution network. The additional amount applied to this line of business up to 31 December 2003 was approximately HK\$1,599,000.

The Group had consequently concentrated its efforts on the sale of its products to India, which does not require such high resolution standard, and the rest of the world rather than waiting for the 2K projectors to become available. For the above reasons, the target as stated in the section headed "Statement of business objectives" of the Prospectus had to be delayed.

Due to the abovementioned reasons, revenue generated from "Developing digital cinema distribution network" activities was lower than expected and, the Group had applied additional IPO Proceeds on such activities and therefore accelerated the use of the IPO Proceeds.

Note 2: Production maintenance and co-financing

At the time of the IPO, the Directors expected that pre-sale contracts for certain countries/territories for the Group's production *Thru the Moebius Strip* (the "Film") would have been concluded and completed by 31 December 2003, bringing pre-sale proceeds to finance the production. However, the management of the Group had subsequently determined, upon advice from distribution agent, that it would be in the interest of the Group and its Shareholders to develop the Film into a substantially completed form before entering into any negotiation for pre-sale, so as to achieve the best possible price. As stated in the third quarterly report of the Company for 2003, the Group targeted to complete the Film in a marketable form by the end of the first quarter of 2004 and is optimistic that pre-sale contracts for worldwide distribution rights, excluding the US, China Mainland and Japan, will be concluded soon thereafter.

Editing work on the Film has recently been completed and the Film is in the post-production stage, pending the finalisation of the theme and background music scores and the recording by musicians.

The Group has contracted the Slovak Radio Symphony Orchestra and Chorus for the orchestral performance of the Film's music, but due to the unavailability of time for theme music recording in Bratislava, Czechoslovakia, and sound stage time for final mix in Los Angeles, the US, these final stages of production are only available in early and mid April 2004 respectively.

Consequently, the target date for production of a final high definition digital version is at the beginning of May 2004, in time for exhibition at the Cannes Film Festival, scheduled from 12 to 23 May 2004 to be held in Cannes, France. In the meantime, pre-marketing is proceeding and the Group's Chief Executive Officer will be taking a lead in a large-scale marketing event that takes place in February 2004 at the American Film Market, an annual marketplace for the global motion picture industry to be held in Los Angeles, the US, for the Film. In addition, the Group has already appointed a Japanese distribution agent and is in discussion with potential China mainland distribution agents for the Film.

Since the pre-sale revenue of the Film did not materialise in late 2003, the Company had applied additional IPO Proceeds, to the amount of HK\$20,918,000 (which were estimated to have been substantially financed from the pre-sale proceeds of the Film) to, inter alia, carry out the abovementioned work required for the completion of the Film.

As stated in the Prospectus, the total production budget for the Film is approximately HK\$78,000,000. As at 21 July 2003, being the latest practicable date of the Prospectus (the "LPD"), the Group had spent approximately HK\$60,000,000 on the Film. The Directors estimated that an additional amount of approximately HK\$7,800,000 would be required in order to complete the Film. In addition, the Group had reserved an amount of approximately HK\$10,000,000 for contingency purpose.

As disclosed in the Third Quarterly Report, the total production cost for the Film carried forward in the Group's balance sheet as production work in progress, totalled approximately HK\$66,191,000 as at 30 September 2003. Further costs incurred during the period from 1 October 2003 to 31 December 2003 had resulted in further increase of the production work in progress to approximately HK\$76,200,000. The Directors currently estimate that further costs, including internal costs such as CG production costs and external costs such as the costs of editing, recording of theme music, consultants, and marketing expenses, totalling approximately HK\$11,800,000 is required to bring the Film to a form suitable for pre-sale marketing. Therefore, the total production for the Film is estimated to be approximately HK\$88,000,000.

The principal reasons for the total production cost of the Film to go over the originally budgeted amount of approximately HK\$78,000,000 included:

- the Film was originally scheduled for pre-sale in the last quarter of 2003 and that the production for the Film would have been completed by 2003. To further improve on the quality and the animatics so that the Film meets the standard expected by international audience, the Film had to be re-edited and certain scenes had to be corrected for technical reasons. Therefore, the Group incurred additional production costs; and
- originally, the post-production work was to be carried out partly in Hong Kong and partly in Asia. The costs of the post-production are higher than anticipated as the Group had to engage an experienced editor from Hollywood for the editing and sound engineering work rather than a local editor/firm in Hong Kong. Further, the costs of the composition of theme music and orchestral performance by an oversea composer and orchestra are higher than the budgeted amount, despite vigorous efforts made to minimise the spending. The engagement of these overseas consultants and experts had resulted in additional travelling and accommodation costs in bringing them to the Group's production base in Shenzhen, the PRC.

Based on the above, the Directors are confident that the Group is able to conclude pre-sale contracts for the Film after the Cannes Film Festival in May 2004, and estimate that the orders for the Group’s D-cinema equipment will increase during 2004. On these bases, the Group will generate revenue from its business.

As previously announced, the turnover and loss of the Group for the nine months ended 30 September 2003 amounted to approximately HK\$5,973,000 and HK\$22,761,000 respectively. Due to the delayed revenue of the Group from the sale of D-cinema equipment and the pre-sale of the Film, the Company had applied additional IPO Proceeds to carry out the general operations of the Group as mentioned in the Prospectus.

Assuming no additional funding is available to the Group and pre-sale contracts are concluded within this year, it is the present intention of the Directors to apply the balance of the IPO Proceeds as follows:

	Use of the IPO Proceeds as stated in the Prospectus for the six months ending					Revised use of the IPO Proceeds for the six months ending				
	30	31	30	31	Total	30	31	30	31	Total
	June	December	June	December		June	December	June	December	
	2004	2004	2005	2005		2004	2004	2005	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Strengthening management and international marketing team	-	-	-	-	-	-	-	-	-	-
Developing digital cinema distribution network	8,500	8,500	4,600	4,600	26,200	4,500	4,500	2,400	2,400	13,800
Research and development of digital cinema technologies	2,400	2,400	3,000	2,400	10,200	1,300	1,300	1,600	1,300	5,500
Production maintenance and co-financing	1,200	1,200	-	-	2,400	600	600	-	-	1,200
Working capital	-	-	-	-	-	-	-	-	-	-
Total	<u>12,100</u>	<u>12,100</u>	<u>7,600</u>	<u>7,000</u>	<u>38,800</u>	<u>6,400</u>	<u>6,400</u>	<u>4,000</u>	<u>3,700</u>	<u>20,500</u>

The Directors are of the view that there would be no material adverse impact to the Group resulting from the reduction of the IPO Proceeds designated for the various expenditure areas because the Directors anticipate that pre-sale proceeds from the Film will be generated after the extensive marketing at the Cannes Film Festival to be held in May 2004, and such proceeds will be applied on the Production Maintenance and Co-financing to the Group’s production. As a result, the Directors anticipate that a lower amount will be drawn from the IPO Proceeds to fund the business objectives of the Group as stated in the Prospectus. In addition, the Directors confirm that the Group will continue to carry out the business objectives as stated in the Prospectus and will review from time to time, the applications of the IPO Proceeds.

Save as set out above, the Directors confirm that as at the date of this announcement, there is no material change in the business objectives of the Group as stated in the Prospectus and that the abovementioned accelerated use of the IPO Proceeds has no material adverse impact on the operations and business of the Group.

As a result of the accelerated use of IPO proceeds, the Group is currently exploring ways in raising additional funding to strengthen the financial position of the Group, but no concrete plan has been finalised as at the date of this announcement.

As at the date of this announcement, the Directors confirm that there is no litigation, claims or damages against the Group.

Investors/Shareholders are advised to exercise extreme caution in dealing in the securities of the Company.

By Order of the Board
Global Digital Creations Holdings Limited
Raymond Dennis Neoh
Director

26 February 2004, Hong Kong

This announcement, for which the Directors collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

* *For identification purpose only*