GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED
環球數碼創意控股有限公司*

(incorporated in Bermuda with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

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This announcement, for which the directors of Global Digital Creations Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of 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 purposes only*

FINAL RESULTS

The Directors herein present the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2003, together with the comparative figures for the year ended 31 December 2002, as follows:

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	**2003** *HK$'000*	2002 *HK$'000*
Turnover	2	**11,478**	2,306
Cost of sales		**(8,428)**	(3,228)
Gross profit/(loss)		**3,050**	(922)
Other revenue	2	**156**	22
Other operating income		**658**	–
Administrative expenses		**(27,648)**	(11,644)
Other operating expenses		**(4,261)**	(3,089)
Operating loss	4	**(28,045)**	(15,633)
Finance costs	5	**(5,255)**	(1,796)
Loss before taxation		**(33,300)**	(17,429)
Taxation	6	**151**	–
Loss for the year		**(33,149)**	(17,429)
Loss per share	8		
Basic		**HK4.63 cents**	HK2.64 cents
Diluted		**N/A**	N/A

Notes:

1 GROUP REORGANISATION

The Company was incorporated in Bermuda on 9 October 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation ("Reorganisation"), which was completed on 31 December 2002, to rationalise the structure of the Group in preparation for the listing of the shares of the Company (the "Shares") on GEM of the Stock Exchange, the Company became the holding company of the companies comprising the Group. The Shares of the Company were listed on GEM on 4 August 2003.

2 REVENUES AND TURNOVER

The Group is principally engaged in computer graphics ("CG") creation and production, digital content distribution and exhibitions, and the provision of CG training courses. Revenues, net of business tax, recognised during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Turnover		
Training fees	**2,577**	2,052
Sales of goods	**8,599**	–
Box office receipts from distribution of digital motion pictures	**93**	151
Rental income from equipment leasing	**137**	55
Franchise fee from digital cinema for use of equipment	**72**	48
	11,478	2,306
Other revenue		
Interest income	**156**	22
Total revenues	**11,634**	2,328

3 SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into three main business segments which comprise CG creation and production, digital content distribution and exhibitions, and the provision of CG training courses.

For the year ended 31 December 2003:

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Turnover					
External	–	8,901	2,577	–	11,478
Inter-segment	–	2,025	–	(2,025)	–
Total turnover	–	10,926	2,577	(2,025)	11,478
Segment results	(6,408)	(8,824)	(4,078)		(19,310)
Other revenue					156
Unallocated costs					(8,891)
Operating loss					(28,045)
Finance costs					(5,255)
Loss before taxation					(33,300)
Taxation					151
Loss for the year					(33,149)

For the year ended 31 December 2002:

	CG creation and production *HK$'000*	Digital content distribution and exhibitions *HK$'000*	CG training courses *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Turnover					
External	–	254	2,052	–	2,306
Inter-segment	–	–	–	–	–
Total turnover	–	254	2,052	–	2,306
Segment results	(3,515)	(8,285)	(1,189)		(12,989)
Other revenue					22
Unallocated costs					(2,666)
Operating loss					(15,633)
Finance cost					(1,796)
Loss for the year					(17,429)

Secondary reporting format – geographical segments

The Group's three business segments operate in four main geographical areas, namely Hong Kong, the People's Republic of China (the "PRC" or "China mainland")*, India and other countries (principally the United States of America (the "US"), Thailand and Taiwan). The head office of the Group and the research and development centre are located in Hong Kong. The Group's CG production centre and the CG training schools are located in China mainland. Customers of the Group's digital content distribution and exhibitions are located in China mainland, India and other countries.

* *For the purpose of this announcement, the People's Republic of China excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan,*

For the year ended 31 December 2003:

	Turnover *HK$'000*	**Segment results** *HK$'000*
Hong Kong	**–**	**(2,586)**
China mainland	**2,814**	**(7,979)**
India	**7,100**	**(7,492)**
Other countries (principally the US, Thailand and Taiwan)	**1,564**	**(1,253)**
	11,478	
Other revenue		**156**
Unallocated costs		**(8,891)**
Operating loss		**(28,045)**

For the year ended 31 December 2002:

	Turnover *HK$'000*	Segment results *HK$'000*
Hong Kong	–	(8,292)
China mainland	2,306	(4,697)
India	–	–
Other countries (principally the US, Thailand and Taiwan)	–	–
	2,306	
Other revenue		22
Unallocated costs		(2,666)
Operating loss		(15,633)

4 OPERATING LOSS

	2003	2002
	HK$'000	*HK$'000*
Operating loss is stated after charging the following:		
Cost of inventories sold	**3,648**	–
Depreciation (note)	**4,013**	2,701

Note:

	2003	2002
	HK$'000	*HK$'000*
Depreciation		
– leased assets	**6,820**	4,031
– owned assets	**2,897**	2,754
	9,717	6,785
Less: Amounts included in production work in progress	**(5,704)**	(4,084)
	4,013	2,701

5 FINANCE COSTS

	2003	2002
	HK$'000	*HK$'000*
Interest expenses on		
– finance leases	**1,330**	828
– bank loans (wholly repayable within five years)	**1,519**	121
– bank overdrafts	**34**	–
– other loans (wholly repayable within five years)	**420**	84
– loans from shareholders	**1,586**	370
– advances from an officer	**50**	–
– convertible note	**134**	10
Premium on redemption of convertible note	**–**	312
Amortisation of loan guarantee fee	**743**	71
Total finance costs incurred	**5,816**	1,796
Less: Amounts capitalised in production work in progress		
– Interest expenses	**(375)**	–
– Other borrowing costs	**(186)**	–
Total borrowing costs capitalised	**(561)**	–
Finance costs charged to consolidated profit and loss account	**5,255**	1,796

The capitalisation rate applied to funds borrowed generally and used for the production of films is 0.5% per month (2002: Nil).

6 TAXATION

No Hong Kong profits tax was provided for the year as the Group had no estimated assessable profit arising in or deriving from Hong Kong (2002: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The subsidiary of the Company operating in China mainland has been granted tax exemption from income tax for two years, starting from the first year of profitable operations after setting off accumulated losses brought forward, followed by a 50% reduction in income tax for the next three years. The subsidiary is still under the tax holiday during the year.

The amount of taxation credited to the consolidated profit and loss account represents:

	2003	2002
	HK$'000	*HK$'000*
Current taxation	**–**	–
Deferred taxation relating to the origination and reversal of temporary differences	**151**	–
Taxation credit	**151**	–

7 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

8 LOSS PER SHARE

Basic loss per share for the year ended 31 December 2003 is calculated based on the loss for the year of HK$33,149,000 and on the weighted average of 715,903,027 Shares in issue during the year.

The comparative basic loss per share for the year ended 31 December 2002 is calculated based on the loss for the year of HK$17,429,000 and on an aggregate of 660,100,011 Shares, comprising 10,000,000 Shares issued on 7 November 2002, 30,000,000 Shares issued upon the Reorganisation and 620,100,011 Shares issued pursuant to the capitalisation issue for the then shareholders upon completion of the Reorganisation, which were deemed to have been in issue since 1 January 2002.

Diluted loss per share for the year ended 31 December 2003 is not presented because there was no dilutive potential ordinary shares in existence during the year. No diluted loss per share was presented for the year ended 31 December 2002 as the convertible note was anti-dilutive.

9 RESERVES

	Contributed surplus HK$'000	Share premium HK$'000	Share issuance costs HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	40,271	–	–	–	5	(13,398)	26,878
Share issuance costs	–	–	(4,465)	–	–	–	(4,465)
Loss for the year	–	–	–	–	–	(17,429)	(17,429)
Transfer to statutory reserve	–	–	–	415	–	(415)	–
Exchange difference	–	–	–	–	43	–	43
At 31 December 2002	40,271	–	(4,465)	415	48	(31,242)	5,027
At 1 January 2003	40,271	–	(4,465)	415	48	(31,242)	5,027
Issue of shares to pre-listing investors	–	40,168	–	–	–	–	40,168
Issue of shares by placing and public offer	–	65,637	–	–	–	–	65,637
Capitalisation issue	–	(6,705)	–	–	–	–	(6,705)
Share issuance costs	–	–	(10,336)	–	–	–	(10,336)
Transfer to share premium account	–	(14,801)	14,801	–	–	–	–
Loss for the year	–	–	–	–	–	(33,149)	(33,149)
Transfer to statutory reserve	–	–	–	123	–	(123)	–
At 31 December 2003	40,271	84,299	–	538	48	(64,514)	60,642

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Business objectives up to 31 December 2003 as stated in the prospectus of the Company dated 23 July 2003 ("Prospectus")	Actual business progress
CG creation and production	1 Complete *Thru the Moebius Strip* production and premier.	*Thru the Moebius Strip* is currently in the final post-production stage.
	2 Sign up a US distributor for *Thru the Moebius Strip.*	Senator International Inc. ("Senator") has been appointed as the international sales agent (excluding Japan, China and North America) and negotiation with a US domestic sales agent is in progress.
	3 Pre-sell *Thru the Moebius Strip* to markets other than the US.	Pre-sale contracts for certain countries had been signed subsequent to the year ended 31 December 2003.
	4 Set up a merchandising arm and begin licensing of merchandise in the PRC market and other target markets.	A merchandising arm has been set up. Negotiation is underway regarding licensing of merchandise.
	5 Issue beta version of *Thru the Moebius Strip* on-line game in Greater China.	Negotiation is underway for development of a beta version of *Thru the Moebius Strip* on-line game.
	6 Begin development of prototype of the *Thru the Moebius Strip* and Sandman console games in the US with Equinoxe.	The project is currently on hold pending the response to the film and further negotiation.
	7 Publish first issue of CG games and digital cinema print and e-magazine.	The project is currently on hold pending further negotiation.
	8 Recruit around 50 digital artists from graduates of the 3rd CG training course.	67 digital artists were recruited.

Business objectives up to 31 December 2003 as stated in the prospectus of the Company dated 23 July 2003 ("Prospectus")	Actual business progress
9 Finalise agreements with WAMC, Inc. for production of the first 26 episodes of the *New Adventures of Raggedy Ann and Andy*, and that of *Panshel, the Flying Panda* and commence their pre-production.	Agreement had been finalised with WAMC Inc. and the production of the TV series for *Panshel*, *the Flying Panda* (now renamed *Panshel's World*) had begun during the last quarter of 2003. The project *New Adventures of Raggedy Ann and Andy* will not be pursued.
10 Finalise the agreement for the feature film *Bit and Byte* and commence pre-production.	GDC had decided not to pursue this project after a further assessment.
11 Finalise the appointment of Overseas Chinese Town (Hong Kong) Limited as merchandising agent of the Company in the PRC.	Negotiation is underway.
12 Begin pre-production of sequel to *Thru the Moebius Strip*.	Not yet begun.
13 Issue first comics based on *Thru the Moebius Strip*.	Not yet begun.
14 Begin development of next on-line game and localisation of Korean and Japanese games.	Negotiation commenced with a game company to begin development of on-line game.

	Business objectives up to 31 December 2003 as stated in the prospectus of the Company dated 23 July 2003 ("Prospectus")	Actual business progress
Digital content distribution and exhibitions	1 Supply digital cinema and equipment to Adlabs.	In progress
	2 Sign up around 50 and 25 cinemas in the PRC and the rest of Asia respectively for the supply of digital projection and playback equipment.	The launch of further D-cinemas under the franchise model is currently delayed for reasons as set out in the section headed "Use of Proceeds from the Company's Initial Public Offering" of this announcement.
	3 Keep in close touch with SMPTE Committee DC28 and work on compliance.	On-going.
	4 Market digital cinema in Singapore and Hong Kong.	Sale to Singapore had begun and negotiation is underway for Hong Kong.
	5 Begin planning for digital cinema advertising operations.	Negotiation is underway for digital cinema advertising.
	6 Complete BDC evaluation of the Group's digital cinema equipment.	BDC evaluation was completed with one purchase order from BDC.
	7 Set up at least 1 digital cinema demonstration site in the US.	The demo site was set up in California. AMC, Santa Monica theatre.
	8 Continue with research and development of the evolving digital cinema technology and specification.	On-going.
CG Training	1 Set up CG training school in Shanghai and recruit students.	CG training school in Shanghai was set up in August 2003.
	2 Commence the CG training courses in Shanghai, the PRC.	Training commenced in August 2003.
	3 Commence the 4th CG training course in Shenzhen, the PRC.	Intake for the 4th CG training course commenced in September 2003.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Directors had explained the reasons for the changes in the application of the net proceeds raised from the listing of the Shares on GEM of the Stock Exchange in August 2003 (the "IPO Proceeds") and in the statement of business objectives in an announcement made by the Company dated 26 February 2004. The Directors would like to set out below the reasons, as required by the GEM Listing Rules.

The net amount of IPO Proceeds, after deduction of related commission and expenses, amounted to approximately HK$53.3 million. A comparison of the proposed usage of IPO Proceeds made in the Prospectus against the actual usage for the year ended 31 December 2003 is set out as follows:

Application of proceeds

	Proposed usage *HK$ mil*	Actual usage up to 31 December 2003 *HK$ mil*	Difference *HK$ mil*
Strengthening management and international marketing team	4.9	3.3	(1.6)
Developing digital cinema distribution network	1.5	3.1	1.6
Research and development of digital cinema technologies	2.4	2.4	0.0
Production maintenance and co-financing	3.2	20.9	17.7
Working capital	2.5	3.1	0.6
Total	**14.5**	**32.8**	**18.3**

Reasons for the increase in the usage of IPO Proceeds in 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 China mainland 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 D-cinemas in China mainland 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 film distributors. The digital distribution of major films, however, did not accelerate as anticipated but instead, the Digital Cinema Initiative ("DCI") formed by the major film 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 to produce projectors with resolution standard of 2K in very small quantities late last year. 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 use the cash from the IPO Proceeds to finance the development of digital 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 in 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.

Reasons for increased usage of IPO Proceeds for 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 its sales 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 marketable form in the first quarter of 2004 and is optimistic that a significant number of pre-sale contracts for international distribution rights excluding the US, China and Japan, will be concluded soon thereafter.

Editing work on the Film has recently been completed, and the Film is now in the final stage of the post-production phase, pending the finalization 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 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 possible exhibition at the Cannes Film Festival, scheduled from 12 to 23 May 2004 to be held in Cannes, France. To date, the Group has appointed Senator as international sales agent for the Film (excluding the US, China and Japan), appointed a sales agent for the Japanese market, and is in discussion with potential Chinese mainland sales 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 would 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As at 31 December 2003, the Group had substantially finished production of its high definition (“HD”) CG feature length film *Thru the Moebius Strip*; opened up its new Shanghai training school; launched the world’s first high resolution 2K digital film server for exhibition of digital images in cinemas, and GDC Technology Limited (“GDC Technology”) a wholly owned subsidiary of the Group was named *Company of the Year by Screen Digest* for its contribution to D-cinema technology in the world.

During 2003, the Group also diversified into other digital content markets, such as TV series, games, art production service, and commercials. On the educational front, the Group successfully duplicated its long-term CG courses in Shanghai, and started to explore short-term CG courses there. GDC Technology, one of the Group’s wholly owned subsidiaries, has established itself as a leader in D-cinema technology worldwide.

Shares of the Company were listed on GEM of the Stock Exchange on 4 August 2003 and have been traded on the Regulated Unofficial Markets of Frankfurt, Berlin, and Munich Stock Exchanges since September 2003.

OPERATIONS REVIEW

CG Training

The Group believes that training and nurturing artists is the cornerstone for creating a digital content industry. Although there is no shortage of talented artists in China, it is difficult to assemble a team of CG artists that is capable to create, compose, and animate images in three-dimensions CG format. The Group first tackled this problem by providing training, in cooperation with MAYA™/ 3D studio Max™, the major CG software vendors, and created its own curriculum.

CG training is operated under a wholly-owned subsidiary of the Group in China, 環球數碼媒體科技研究(深圳)有限公司 or Institute of Digital Media Technology (Shenzhen) Limited ("IDMT Shenzhen") and 環球數碼媒體科技(上海)有限公司 or Institute of Digital Media Technology (Shanghai) Limited* ("IDMT Shanghai"). IDMT Shenzhen has been conducting training in CG for animation artists in China for the past four years. The Group had trained over 400 students and has another 210 students during 2003 and 2004. The Group's training school in Shanghai, operating under IDMT Shanghai now has over 60 full time students, and the Group has also opened up part time and evening courses in Shanghai for digital artists. The Group has also published three new textbooks on CG in China mainland.

IDMT Shanghai has enjoyed a lot of support from the Shanghai municipal and the Chang Ning District government. The Group was selected by the Shanghai Labour Department to help conduct entry-level CG courses to the residents of Shanghai. These courses will be fully funded by the Shanghai Labour Department and will be conducted inside and outside of the Group's premises. This allows the Group to scale its training program outside its premises to reach a much larger students body, without stretching its existing resources. The Group is also planning to offer professional courses for students in other Asian countries to study in Shanghai by bringing in world-class instructors.

CG content creation and production

The Group has based its major CG production studio in Shenzhen, China, which has over 300 employees. In 2003, the Group has also opened up a new production wing within its facility. The Group has finished rendering its feature production *Thru the Moebius Strip* in 2003 and is now putting on the finishing touches. With the growth in experience of the digital artists, the Group has diversified into other digital content areas, such as TV series.

Due to our high standard of finishing quality and fast turnaround time, the Group has been approached by other companies in the US and Europe which had submitted scripts for co-production in TV series and feature films.

As stated in the Third Quarterly Report for the period ended 30 September 2003, the production of *Thru the Moebius Strip* is in the post-production stage. *Thru the Moebius Strip* is the Group's three dimensional ("3D") CG full feature film in HD format which has been designed by Jean Giraud Moebius ("Moebius"), written by Jim Cox and Paul Gertz, directed by Glenn Chaika and with art direction by Moebius, Sylvain Despretz and Fred Cline. It is a science fiction/fantasy epic story about a search by Jac Weir for his father Simon Weir, a physicist, who becomes lost and trapped in a distant planet after he crossed over in a space-time portal.

The Group is pleased to advise that further progress has been made on the post-production stage and the producer and director have "time-locked" the Film. As stated above, the orchestral performance of the theme and background music for the Film will be recorded in early April 2004, and the final mix of the recording will be performed in mid April 2004. Consequently, the target date for production of a final HD digital version of the Film 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.

The Group has entered into a sales agency agreement with Senator, our sales agent for the Film for countries excluding the US, China and Japan. The Group has also signed up a sales agent for the Japanese market, and is in discussion with sales agents for China. To date, the Group has, through Senator entered into pre-sale contracts for the theatrical, DVD/Video, and TV exhibition rights in four countries. The Group anticipates that it shall be able to secure more pre-sale contracts after the Cannes Film Festival in May 2004.

During the last quarter of 2003, the Group had begun co-production of a 52-episode animated series of television program titled *Panshel's World* (the "TV series") which it is co-producing with French and German partners. The Group anticipates that the production of *Panshel's World* will be completed by September/October 2004, and the launch of the first episode on TV is expected in the last quarter of 2004. Pursuant to the co-production agreement entered into between the Group and the two other co-producers, the CG animation will be undertaken by the Group, while the other two co-producers will be responsible for the pre-production work and the post-production of the character models, the English scripts, recording and editing, selling and marketing of the TV series.

The Group holds the intellectual property rights in the Film. The Group in the process of putting together a licensing programs, which covers the development of a merchandising catalogue and styles guide. The Group has also been approached by other companies to develop high definition TV series based on the Film.

The Group will also be working in establishing a brand in the world market as supplier of high quality, fast turnaround and affordable production service for CG feature film, with a distributor and well known directors in place. The Group is also launching the CG TV series *Panshel's World* in China mainland in 2004, and will also start its licensing and merchandising program.

Digital content distribution and exhibitions

2003 is the year that GDC Technology, the Group's D-cinema operating arm, made history in the world of D-cinema market. GDC Technology was the only company that was selected to demonstrate in the Texas Instrument 2K digital-light-processor ("DLP") project in Hollywood and ShoWest (which the Group repeated the honour by Texas Instrument in 2004 ShoWest again). GDC Technology was also named *Company of the Year by Screen Digest* the world-renowned authority in the D-cinema marketplace. GDC Technology made history by signing and agreement with Mukta Adlabs Digital Film Exhibition Limited of India to supply a total of 1,400 servers to start a D-cinema revolution in India. GDC Technology also made history by delivering the world's first workable multiplex solution to (Digital Cinema Initiative ("DCI"), which is responsible to set worldwide digital cinema standard in Hollywood. GDC Technology also demonstrated broadcasting of *Live Concert* in high resolution into a theatre in China using our DSR™ server. GDC Technology is the only company in the world today which offers total software solution to D-cinema, with the highest picture quality (4:2:2) and an affordable multiplex cinema solution.

FINANCIAL REVIEW

Turnover for the Group was approximately HK$11,478,000 for the year ended 31 December 2003 (2002: HK$2,306,000), which represented an increase of 397% as compared with the previous financial year. The increase was derived from the sale of D-cinema equipment, following the successful commercialisation of these products in early 2003.

The cost of sales for the year amounted approximately to HK$8,428,000 giving a gross profit of HK$3,050,000, representing a gross profit percentage of 26%. By way of comparison, the Group generated a gross loss of HK$922,000 for the year ended 31 December 2002.

Administrative expenses for the year ended 31 December 2003 totalled HK$27,648,000 (2002: HK$11,644,000). The reasons for the increase was attributable to the higher personnel costs, rental and utility expenses for the newly set up training school in Shanghai, and marketing and business development costs for promotion of the Group's businesses at international trade shows and exhibitions.

Other operating expenses, which comprised mainly of research and development costs for digital content distribution and exhibitions, amounted to HK$4,261,000 for the year. (2002: HK$3,089,000). The increase in operating expenses was attributable to the increase in the headcount for research and development personnel from 11 to 31 during the year.

The total finance costs amounted to approximately HK$5,255,000 for the year (2002: HK$1,796,000). The increase in finance costs was attributable to the drawing down of two commercial bank loans denominated in RMB in October 2002 and March 2003 respectively, and increases in obligations under finance leases which were taken out for the purchase of new computer equipment for CG production in Shenzhen and CG training school in Shanghai.

Overall the Group incurred a net loss of approximately HK$33,149,000 for the year ended 31 December 2003, which represented an increase of 90% over the loss of approximately HK$17,429,000 for the previous year. Loss per share increased to HK4.63 cents for the year, compared with HK2.64 cents for the previous year.

Comments on segmental information

Revenues from digital content distribution and exhibitions which comprised sale revenue of D-cinema products amounted to approximately HK$8,901,000 for the year (2002: HK$254,000), representing 78% of the total revenue of the Group for the year.

Revenues from CG training amounted to approximately HK$2,577,000 for the year (2002: HK$2,052,000), representing 22% of the total revenue of the Group for the year. The increase in the revenue is due to the addition of the second CG training school in Shanghai.

Due to the delay in the launch of the franchise business model for the D-cinema equipment, revenue from franchise fees and box office receipts from distribution of digital motion pictures from the two cinemas in Shanghai amounted to HK$72,000 (2002: HK$48,000) and HK$93,000 (2002: HK$151,000), respectively, which were relatively minor when compared with the revenues from other sources.

No revenue has yet been generated from CG content creation and production.

The segmental results for CG creation, and production recorded a loss of HK$6,408,000 (2002: HK$3,515,000). This represented the general marketing and overhead costs which were not directly attributable to the CG production and hence had to be written off to the profit and loss account.

The segmental results for digital content distribution and exhibitions recorded a loss of approximately HK$8,824,000 for the year (2002: HK$8,285,000). It should be noted that the research and development costs had not been capitalised in the balance sheet as the conditions required for such capitalisation had, in the view of the Directors, not been met. However, in view of the successful commercialisation of the D-cinema products, the Directors will consider capitalisation of development costs in 2004.

The segmental results for CG training courses recorded a loss of approximately HK$4,078,000 (2002: HK$1,189,000). The loss had increased because the training facility in Shanghai has not yet reached its full capacity.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group did not have any material acquisitions and disposals for the year ended 31 December 2003 and 31 December 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The aggregate outstanding borrowings of the Group as at 31 December 2003 were approximately HK$53,740,000 (2002: HK$66,944,000), representing finance lease obligations, bank borrowings denominated in RMB, loans from shareholders, other loans and advances.

As at 31 December 2003, the Group had a total cash balance of approximately HK$21,889,000 (2002: HK$8,089,000).

MATURITY PROFILE OF DEBTS AND INTEREST RATES

As at 31 December 2003, the Group had the following debt profile:

(i) A secured commercial bank loan denominated in RMB of approximately HK$14,143,000 (2002: HK$14,143,000) from Bank of China Limited which bears interest at 0.5% per month and falls due in October 2004;

(ii) A secured commercial bank loan denominated in RMB of approximately HK$14,143,000 (2002: HK$ nil) from Shenzhen Commercial Bank which bears interest at 0.5% per month and falls due in March 2005;

(iii) Finance lease obligations totalling approximately HK$13,501,000 (2002: HK$12,870,000) which bear rates of interest between 6.9% and 10.3% for finance leases over the period of the respective leases;

(iv) Unsecured loans from a shareholder of approximately HK$11,536,000 (2002: HK$11,746,000), which bear interest at the best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum, and which is not repayable within twelve months from 31 December 2003.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings to shareholders' equity was 78% (2002: 1,233%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's assets are predominately denominated in Hong Kong dollars or RMB, and its revenues are predominately United States dollars based. Therefore, it does not anticipate significant exposure to fluctuations in exchange rates, under the currency peg arrangement.

The Group has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuations during the year. As at 31 December 2003, the Group did not have any outstanding hedging instruments.

CHARGE ON ASSETS

Finance lease

GDC China Limited ("GDC China") and GDC Technology, both indirectly wholly-owned subsidiaries of the Company, have entered into finance leases for equipment financing, relating principally to computer equipment for CG production. As at 31 December 2003, the net book value of leased assets was approximately HK$10,389,000 (2002: HK$11,630,000).

Banking facilities

On 31 October 2002, banking facilities of RMB 30,000,000 (equivalent to approximately HK$28,286,000) had been obtained by IDMT Shenzhen from Bank of China Limited, Shenzhen branch "BOC Facilities"). The Group had drawn down RMB15,000,000 on 31 October 2002. The BOC Facilities are guaranteed by Global Digital Creations Limited and 中投信用擔保有限公司 or China Investment Credit Guarantee Limited* ("CICG"), an independent third party ("CICG Guarantee"). Global Digital Creations Limited and Mr. Raymond Dennis Neoh have given counter-guarantees in favour of CICG, and GDC China has pledged its entire interest in the registered capital of IDMT Shenzhen to CICG ("BOC Asset Pledge") for the repayment of all debts incurred by CICG for which CICG is liable under the CICG Guarantee. The guarantee given by Global Digital Creations Limited will be effective till two years upon the expiry of the term of the bank loan. The counter guarantee given by Mr. Raymond Dennis Neoh remains effective as at 31 December 2003. The counter-guarantee given by Global Digital Creations Limited and the BOC Asset Pledge will remain effective until IDMT Shenzhen has repaid all debts under the BOC Facilities.

On 21 March 2003, another banking facilities of RMB 30,000,000 (equivalent to approximately HK$28,286,000) had been obtained by IDMT Shenzhen from Shenzhen Commercial Bank in Shenzhen ("SCB Facilities"), and the Group had drawn down an amount of RMB 15,000,000 on the same day. The SCB Facilities are guaranteed by CICG ("SCB guarantee") and will expire on 21 March 2005. The guarantee given by CICG shall be effective for three years after the expiry of SCB Facilities. The Company and Mr. Raymond Dennis Neoh have given counter-guarantees to CICG, and GDC China has pledged its entire interest in the registered capital of IDMT Shenzhen ("SCB Asset Pledge") to CICG for the repayment of all debts incurred by CICG for which CICG is liable under the SCB Guarantee. The counter-guarantees given by Mr. Raymond Dennis Neoh and the Company, and the SCB Asset Pledge will remain effective until IDMT Shenzhen has repaid all debts under the SCB Facilities.

Lien relating to the Film

GDC Entertainment Limited, an indirectly wholly-owned subsidiary of the Company, has entered into a Security Agreement in favour of the Screen Actors Guild ("SAG") pursuant to which GDC Entertainment Limited granted to SAG a security interest in all of its assets relating to the Film to secure, among other things, the payment of all sums owing under the applicable union collective bargaining agreement to the actors and actresses whose voices were recorded for use in the Film, including any additional compensation owing to the actors and actresses under the union collective bargaining agreement when the Film containing the voices of the actors and actresses is exhibited on free television or on pay television or when copies of the Film are sold on home video devices. This Security Agreement is a standard agreement required to be entered into whenever members of the Screen Actors Guild are employed to render services in connection with a motion picture that is not being produced by a major US studio.

Apart from the above, there were no further charges on assets of the Group.

CAPITAL STRUCTURE

On 25 and 26 June 2003, the Company allotted and issued 945,311 and 2,302,681 Shares of the Company of HK$0.01 each to two pre-listing investors at cash considerations of HK$11,700,000 and HK$28,500,000 respectively. The excess of the aggregated cash consideration over the nominal value of Shares of HK$40,168,000 was credited to the share premium account of the Company.

On 1 August 2003, the Company allotted and issued 66,300,000 Shares of the Company of HK$0.01 each to investors through the initial public offerings at the issue price of HK$1.00 per share, resulting in receipt of a total cash consideration of HK$66,300,000. The excess of the aggregate cash consideration over the nominal value of shares of HK$65,637,000 was credited to share premium account of the Company.

On the same date, 670,452,008 shares were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company in proportion to their respective shareholdings at the close of business on 1 August 2003 by way of capitalisation of the sum of HK$6,704,520 standing to the credit of the share premium account of the Company.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2003 and 31 December 2002 respectively.

HUMAN RESOURCES

The number of the Group's employees (including the Directors) is set out as follows:

	2003	2002
Management	**8**	6
CG creation and production	**228**	200
CG training	**24**	9
Digital cinema equipment production	**7**	–
Research and Development	**31**	11
Sales and Marketing	**12**	2
Finance and Administration	**25**	21
Total	**335**	249

As at 31 December 2003, the Group employed 335 full time staff (2002: 249) at market remuneration with employee benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme. Staff costs for the year ended 31 December 2003 amounted to approximately HK$31,421,000 (2002: HK$24,128,000).

OUTLOOK

The Directors are optimistic about the outlook and business opportunities of the Group.

The Directors anticipate that revenue from the Film will contribute positively to the Group's cashflow in 2004. With the Group's advantages in both price and quality, the Directors believe that the Group can compete competitively for further CG businesses. On digital content distribution and exhibitions, the Group shall continue to expand the sales of DSR™ range of D-cinema equipment to customers in India and around the world, and shall further invest in research and development efforts in D-cinema technology to help place the Group's products at the technological frontier.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FINANCING

There are currently no plans for material investments, except for co-investment in CG production related projects. The Group shall continue to invest in capital assets for CG productions and anticipates that it will continue to utilise finance lease arrangements for funding, where available.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

BOARD PRACTICES AND PROCEDURES

The Company has complied with GEM Listing Rules 5.28 to 5.39 concerning board practices and procedures through the year.

On behalf of the Board
Raymond Dennis Neoh
Director

Hong Kong, 19 March 2004