

interim
report
2004



Global Digital Creations Holdings Limited
環球數碼創意控股有限公司*
(Incorporated in Bermuda with limited liability)



* For identification purpose only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

Company Information	2
Statement from the Chief Executive Officer	4
Other Information	10
Condensed Consolidated Profit and Loss Account	20
Condensed Consolidated Balance Sheet	21
Condensed Consolidated Statement of Changes in Equity	22
Condensed Consolidated Cash Flow Statement	23
Notes to Condensed Accounts	24

COMPANY INFORMATION

Executive Director

Mr. Raymond Dennis Neoh
Mr. Richard Yin Yingneng
(resigned on 24 June 2004)

Non-Executive Directors

Mr. Anthony Francis Neoh
(Chairman)
Dr. David Deng Wei (Vice Chairman)
Mr. Stephen Scharf

Independent Non-Executive Directors

Mr. Gordon Kwong Che Kwong
Professor Japhet Sebastian Law
Dato' Mohd Ibrahim bin Mohd Zain
(resigned on 10 June 2004)

Chief Technology Officer

Dr. Chong Man Nang

Chief Financial Officer & Qualified Accountant

Mr. Ho Tak Kay, FCCA, FHKS
(appointed on 13 August 2004)
Mr. Adrian Mak Yau Kee, FCA, FHKS
(resigned on 13 August 2004)

Company Secretary

Ms. Amelia Mak Lai Yu
Mr. Ira Stuart Outerbridge III

Audit Committee

Mr. Gordon Kwong Che Keung (Chairman)
Professor Japhet Sebastian Law
Mr. Stephen Scharf

Remuneration Committee

Professor Japhet Sebastian Law (Chairman)
Dr. David Deng Wei

Disclosure Policy Committee

Mr. Anthony Francis Neoh (Chairman)
Dr. David Deng Wei
Mr. Gordon Kwong Che Keung
Professor Japhet Sebastian Law
Mr. Stephen Scharf

Authorised Representatives

Mr. Raymond Dennis Neoh
Ms. Amelia Mak Lai Yu

Bermuda Resident Representative

Mr. John C. R. Collis

Bermuda Deputy Resident Representative

Mr. Anthony D. Whaley

Website Address

<http://www.gdc-world.com>

Stock Code

8271.HK
Reuters: 7281.F/8271.BE/8271.MU/8271.DE
(XETRA)
Bloomberg: GDC GR EQUITY

Head Office and Principal Place of Business in Hong Kong

Suite 1804-5, Hutchison House
10 Harcourt Road
Central
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Auditors

PricewaterhouseCoopers

Sponsor

Goldbond Capital (Asia) Limited

Legal Advisers

As to Hong Kong laws

Gallant Y. T. Ho and Co

As to Bermuda laws

Conyers Dill & Pearman

Principal Bankers

Hang Seng Bank Limited

The Development Bank of Singapore Ltd.

Standard Chartered Bank (Hong Kong) Ltd.

Shenzhen Commercial Bank

Bank of China

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

Hong Kong Share Registrar and Transfer Office

Standard Registrars Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

The Directors are pleased to present the interim report and condensed accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2004. The condensed accounts of the Group, which include the consolidated profit and loss account for the three months and the six months ended 30 June 2004, the consolidated statement of changes in equity and consolidated cashflow statement for the six months ended 30 June 2004 and the consolidated balance sheet as at 30 June 2004, all of which are unaudited and condensed and along with selected explanatory notes, are set out on pages 20 to 32 of this report.

FINANCIAL REVIEW

Turnover of the Group for the six months ended 30 June 2004 was approximately HK\$15,291,000 which, when compared with the turnover of HK\$4,159,000 for the six months ended 30 June 2003, represented an increase of approximately 268%. Comparing the quarter ended 30 June 2004 with the quarter ended 30 June 2003, turnover of the Group had also increased from HK\$2,701,000 to HK\$9,370,000, representing an increase of approximately 247%.

The Group made a gross profit of HK\$3,226,000 for the six months to 30 June 2004 (2003: HK\$1,436,000), representing a gross profit margin of approximately 21.1% (2003: 34.5%).

Administrative expenses for the six months ended 30 June 2004 totaled HK\$18,664,000 (2003: HK\$9,128,000). The key components of the administrative expenses comprised personnel costs of approximately HK\$6,886,000 (2003: HK\$3,531,000); travel, accommodation and meeting costs of approximately HK\$2,712,000 (2003: HK\$904,000); legal and professional fees of approximately HK\$2,670,000 (2003: HK\$2,041,000); office rental and utilities of approximately HK\$1,327,000 (2003: HK\$300,000). The increase in the administrative expenses was attributable to the increase in the activities of the Group, as reflected in the higher headcount and the addition of the office in the Chang Ning District of Shanghai, the PRC, after the listing in 2003.

Other operating expenses, which comprised mainly of costs for research and development for digital cinema technology, totaled approximately HK\$2,153,000 (2003: HK\$1,410,000).

Finance costs for the six months ended 30 June 2004 totaled approximately HK\$2,182,000, which represented mainly the interest costs for the two bank loans denominated in Renminbi and finance costs for computer equipment leasing. (2003: HK\$3,220,000). The decrease in finance costs was due to the repayment of certain shareholders' loans during the second half of 2003, which bore interest at the rates between 8% and 15% per annum.

Overall, the Group incurred a net loss of approximately HK\$19,294,000 for the six months to 30 June 2004, which represented an increase of approximately 65.4% over the net loss of approximately HK\$11,664,000 incurred in same period of last year.

As at 30 June 2004, the production of the film *Thru the Moebius Strip* (the "Film") had been completed, and the production of television series *Panshel's World* (the "TV series") was in progress. The related production costs of these projects are carried forward in the balance sheet under production work-in-progress. This is in accordance with the Group's accounting policy on film costs and films under production. The total production costs incurred up to 30 June 2004 for the Film and the TV Series amounted to approximately HK\$93,454,000 (31 December 2003: HK\$75,666,000). Based on the Directors' view, no impairment losses are considered necessary, as the expected income from the exhibition of the Film and the TV series and the expected income from related products are sufficient to cover the costs.

BUSINESS REVIEW

Computer Graphics ("CG") Creation and Production

With the completion of the post-production work, the Film was exhibited in Cannes during the Cannes Film Festival in May 2004 and at the Hong Kong Filmart 2004 held at the Convention and Exhibition Centre in June 2004. The Film was well received by the film industry.

Further pre-sale contracts, for theatrical, DVD/video, merchandising rights over the Film, were secured for Portugal and Indonesia, in addition to the four territories (Singapore, Thailand, Greece, the Gulf states) secured during the first quarter of 2004. The total value of pre-sale contracts for these countries is approximately US\$500,000. The Group continues to work with Senator International Inc. ("Senator"), the international sales agent, for a United States ("US") domestic distribution in parallel with securing further international pre-sale contracts. Present feedback from Senator is that the Group can expect higher volume international contracts once a US distribution is secured. The Film is being privately screened in the US to potential distributors. It is anticipated that an agreement can be concluded during the third quarter of 2004. Meanwhile, arrangements are being finalized for distribution in China mainland and a tentative distribution period has been set for the period between January to February 2005. The Film qualifies as a Chinese production.

On 6 June 2004, GDC Entertainment Limited ("GDC Entertainment"), an indirectly wholly-owned subsidiary of the Company entered into a co-production agreement with EnterAktion Studios, Inc. ("EnterAktion Studios"), a Los Angeles based content creator and production company to co-produce three original CGI (computer graphics imaging) feature films created and developed by EnterAktion Studios on a budget of US\$20 million each (the "Properties"). GDC Entertainment will co-own the Properties with EnterAktion Studios and will receive payment for the animation services to be rendered to the project, as an animation service provider in accordance with a production schedule to be determined. EnterAktion Studios will be responsible for financing a cash budget of approximately US\$8 million, and GDC Entertainment will receive US\$5 million in revenue for the production of each of the Properties. EnterAktion Studios is owned principally by Mr. Tom Walsh (co-chairman and chief executive officer) and the Hilton Family of Hilton Hotels.

On 25 June 2004, GDC Holdings Limited ("GDC"), an indirectly wholly-owned subsidiary of the Company entered into an agreement (the "Agreement") with Gameone Online Entertainment Group Limited ("Gameone") for the formation of a joint venture company, GDC.Gameone Limited, for the purpose of development and production of on-line video games for the People's Republic of China ("PRC") market. Gameone engages in the business of interactive on-line internet video game creation and production. GDC.Gameone Limited shall be held as to 60% by GDC and as to 40% by Gameone, and contribution will be made by GDC and Gameone in the amounts of HK\$600,000 and HK\$400,000 respectively, which will be funded over a period of 11 months from the date of execution of the Agreement, namely 25 June 2004. The joint venture is intended to marry GDC's expertise in creation of CG with Gameone's expertise in on-line internet video games creation and production. The joint venture will produce a series of on-line games based on the work of the famous Chinese writer – Gulong. This internet game will be known as Gulong II, and present plans are to launch the game in the PRC on or before 1 July 2005.

Although income in this area of business of the Group has come slower than expected, the Group's CG production capacity has attracted considerable attention in the film and television industry, and as a result, a number of new projects are under active discussions.

Digital content distribution and exhibition

For the second quarter of 2004 ("Second Quarter"), GDC Technology Ltd. ("GDC Technology"), an indirectly wholly-owned subsidiary of the Company, achieved a turnover of approximately HK\$8,000,000, through the sale of 53 units of DSR™ Digital Film Servers to D-cinemas in the US and in the Asia-Pacific region. In addition to the installation at Eng Wah Organization's 2K D-cinema multiplex at Suntec City, Singapore during the first quarter of 2004, GDC Technology completed the delivery, installation and commission of a further three 2K digital cinema (D-cinema) multiplexes in Singapore, namely Eng Wah Jubilee (a 4-screen Multiplex), Eng Wah Toa Payoh (a 5-screen Multiplex) and Eng Wah West Mall (a 6-screen Multiplex) in the Second Quarter. These four 2K D-cinema multiplexes are equipped with DSR™ Cineplex Central Server (GB1000) and GDC Technology's flagship D-cinema playout server – DSR™ Digital Film Server (SA1000) at each of the digital screen. Hollywood blockbusters such as *"The Day After Tomorrow"*, *"King Arthur"* and *"I-Robot"* are impeccably screened in these four multiplexes, with screen advertisements displayed in digital format.

GDC Technology has significantly expanded its US market with the sale of 32 units of DSR™ Digital Film Server (SA1000) in the Second Quarter. GDC Technology completed the delivery of all the 32 units of DSR™ Digital Film Server (SA1000) to the US and completed the installation of 10 D-cinemas in California, the US. The rest of the servers are expected to be installed in the third quarter of 2004.

GDC Technology also expanded its market share in India by securing a deal with Kalasa Entertainment Media in South India. Kalasa is a name worth reckoning in Chennai's recording and audio post-production facilities and it has completed work in over 250 projects. Kalasa aims to retrofit more than 100 cinemas in South India with GDC Technology's digital servers. The Tamil film *"Machie"* is expected to be released in digital print in Kalasa's electronic cinema theatres.

GDC Technology continues to lead the field and with its increasing success, expects to continue in its present increasing sales momentum.

CG Training

The Group continues to recruit students in Shenzhen and Shanghai, the PRC, and is expecting that it is able to reach the maximum intake of 150 and 60 students, respectively for the new intake during the third quarter of 2004. The Group has been running part-time courses for a training scheme under the Shanghai Labour Department. The Group has also been approached by a number of educational institutions proposing co-running of CG training courses in Shanghai and the Jiangsu province, the PRC. The Group has achieved recognized branding in its CG training and production ability in China and the region. The Group will continue to work with partners in the PRC to expand its training business, leveraging on its branding and incurring as low capital cost as possible.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

On 1 April 2004, the share capital of the Company comprised 780,000,000 ordinary shares of HK\$0.01 each ("Shares"). As announced on 5 May 2004, the Company placed out 20,820,000 new Shares, under a general mandate given to the Directors by the shareholders at the annual general meeting of the Company on 20 April 2004, to independent placees raising a net amount of approximately HK\$8,300,000 for working capital purposes. After the capital raising, the issued share capital of the Company was increased to 800,820,000 Shares.

Liquidity and financial resources

As a result of the placement of shares as noted above, net cash proceeds amounted to approximately HK\$8,300,000 were added to the Group's cash balance. The consolidated net cash position of the Group as at 30 June 2004 was approximately HK\$1,723,000 (31 December 2003: HK\$21,889,000).

The aggregate outstanding borrowings of the Group as at 30 June 2004 were approximately HK\$69,486,000, which included bank overdraft and bank loans of approximately HK\$3,874,000 and HK\$28,286,000, respectively, loans from the Company's shareholders of approximately HK\$17,022,000, other loans of approximately HK\$7,797,000, and obligations under finance leases of approximately HK\$12,507,000.

As at 30 June 2004, the net current assets was approximately HK\$39,192,000 (31 December 2003: HK\$64,133,000), representing a decrease of approximately 38.9%, whilst the current ratio was 1.51 (31 December 2003: 2.40). The decrease in the net current assets and the current ratio was mainly due to the re-classification of a bank loan of approximately HK\$14,140,000 which is due to mature in February 2005 from non-current to current liabilities.

Apart from the above bank loan which will mature in 2005, the Group is currently negotiating with a PRC bank on the refinancing of a bank loan, also of approximately HK\$14,140,000. The Directors are confident that this bank loan can be rolled over, without any adverse impact on the financial position of the Group.

Gearing ratio

As at 30 June 2004, the Group had total interest bearing debts of approximately HK\$61,673,000 and shareholder's funds of approximately HK\$57,495,000. Its gearing ratio (ratio of total debts to aggregate of shareholders' funds) had increased from approximately 78.0% as at 31 December 2003 to approximately 107.3% as at 30 June 2004. The increase in the gearing ratio was attributable to the drawdown of additional shareholders' loans and the bank overdraft facility.

Material acquisition, disposals and significant investment

The Group had no material acquisitions, disposals and investment during the six months ended 30 June 2004.

Foreign exchange exposure

Currently, the Group mainly earns revenue and incurs costs in Renminbi, Hong Kong dollars and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group has not used any type of derivatives to hedge against any foreign currency fluctuations.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2004 and 31 December 2003.

Use of IPO proceeds

A breakdown of the use of the proceeds as stated in the Company's announcement dated 26 February 2004 (the "Announcement") and the actual amounts utilised up to 30 June 2004 is summarised as follows:

	Use of the IPO Proceeds up to the six months ended 30 June 2004 as stated in the Announcement HK\$'000	Actual amounts utilised up to 30 June 2004 HK\$'000
Strengthening management and international marketing team	-	1,264
Developing digital cinema distribution network	4,500	969
Research and development of digital cinema technologies	1,300	5,941
Production maintenance and co-financing	600	10,863
Total	6,400	19,037

Due to the delay in the completion of the Film, which was previously anticipated to take place during the second quarter of 2004, the marketing and screening to potential buyers had to be delayed. The pre-sale of the Film during the second quarter, as a consequence, did not materialize, as anticipated in the first quarter of 2004. The Group therefore had to apply additional cash resources from the proceeds from the initial public offering in 2003 ("IPO Proceeds") for the operation of the Group.

The Directors considered that the accelerated use of IPO proceeds is necessary for the continued operation of the Group's businesses and execution of the business plans as set out in the Company's prospectus dated 23 July 2003 (the "Prospectus"), and are cautiously optimistic that revenue from the Film can be generated and received, despite the initial delays. Further announcement will be made by the Company regarding the accelerated use of IPO Proceeds.

OUTLOOK

The Group has started on the full-scale production of the next project, namely *Panshel's World*, a 52-episode television series, in co-production with WAMC Inc. The series will have ample merchandising and on-line game opportunities. The Group expects that at least 26 episodes of the TV series will be completed by the end of the third quarter of 2004, and licensing of merchandises will follow.

The development of other projects as set out in the Prospectus, including a sequel to the Film continues. From this point onwards, the Group believes that it will be in a good position to obtain pre-financing on new projects and as a matter of policy, the Group would not do so until some pre-financing is obtained. The final format of the sequel will be decided upon once it is possible to gauge the initial success of the Film. In addition, tests have been completed and bids have been submitted for a slate of fee for services projects from the US. EnterAktion Studio has informed GDC Entertainment that pre-financing discussions for the three movies are progressing smoothly, and it expects the pre-financing to be in place sometime within the third quarter of 2004. Meanwhile, preliminary pre-production tests have commenced in the first of these three movies.

At the same time, the animation market in the PRC is poised to grow at a phenomenal rate. Recent announcements made by the State Administration for Film and Broadcasting in the PRC indicated that all provinces are being encouraged to start children's program channels and air at least 30 minutes of animation a day, with 60% to be produced in the PRC. The Group is frequently visited by officials from television stations and from many parts of the PRC and is continuously exploring opportunities in producing local programming.

Internet games continue to grow in the PRC, which has a growing internet café population. The Group's joint venture with Gameone, GDC.Gameone, will be ready with *Gulong II* by 1 July 2005. The computer graphics and sets for this game will be much improved from *Gulong I* and it is anticipated that it will be a popular internet game in the PRC. GDC.Gameone is also looking into licensing other works for future games.

The Group will continue sale and deliveries of its DSRTM digital film servers to India, and to further expand the sale of its digital cinema equipment in the US, the PRC, Singapore and Hong Kong. With the increasing sales of D-cinema servers to the US and securing another major customer in South India, the Directors are optimistic about securing further sales of D-cinema equipment. GDC Technology has also increased its marketing activities in the US, Europe and parts of Asia such as the PRC and India. It is anticipated that the Group shall secure more sales in these markets in the coming quarters.

The Board is considering ways to best position the Group's digital content distribution and exhibition business in the global environment. Plans under consideration include, amongst others, the addition of strategic investors for GDC Technology in preparation for a spin-off of this business as a publicly listed company. The Board is also willing to consider a divestment plan, if the right valuation can be achieved.

Expected sources of funding

The Board is also considering various plans to raise funds through the issue of new Shares for equity capital or convertible instruments. Shareholders will be kept informed of developments and announcement will be made, in compliance with the Listing Rules, once any agreements have been reached.

On behalf of the Board
Raymond Dennis Neoh
Executive Director and Chief Executive Officer

Hong Kong, 13 August 2004

OTHER INFORMATION

Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures

As at 30 June 2004, so far as is known to the Directors, the beneficial interests (including interests and short positions in the shares of the Company, underlying Shares and debentures) of the Directors in the shares or securities of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance Cap. 571 ("SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that Section, or required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Approximate percentage of interest (%)
Mr. Anthony Francis Neoh	124,974,230	Beneficial owner <i>(note 1)</i>	15.61
Mr. Raymond Dennis Neoh	275,137,713	Interest in a controlled corporation <i>(note 2)</i>	34.36
Dr. David Deng Wei	20,779,090	Interest in a controlled corporation and beneficiary of a trust <i>(note 3)</i>	2.59
Mr. Gordon Kwong Che Keung	200,000	Beneficiary of a trust <i>(note 4)</i>	0.02
Professor. Japhet Sebastian Law	200,000	Beneficiary of a trust <i>(note 5)</i>	0.02
Mr. Stephen Scharf	200,000	Beneficiary of a trust <i>(note 6)</i>	0.02

Notes:

1. The 124,974,230 Shares were held by Mr. Anthony Francis Neoh directly.
2. 214,122,516 of these Shares were held by Upflow Holdings Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability and wholly- owned by Mr. Raymond Dennis Neoh. The remaining balance of the 61,015,197 Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.
3. The 20,579,090 of these Shares were held by Bright Oceans Corporation (HK) Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by Dr. David Deng Wei. The balance of the 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Dr. David Deng Wei.
4. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Gordon Kwong Che Keung.
5. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Professor Japhet Sebastian Law.
6. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Stephen Scharf.

Long positions in equity derivatives in, or in respect of, underlying Shares

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Mr. Anthony Francis Neoh	32,201,692 options granted under the FS Scheme (note 7)	32,201,692	Beneficial owner (note 8)	4.02
Mr. Raymond Dennis Neoh	4,818,450 options granted under the FS Scheme (note 7)	4,818,450	Beneficial owner (note 9)	0.60

Notes:

7. On 20 March 2003, the shareholders of Forward Strategic Investments Limited, have by written resolution, adopted a share option scheme ("FS Scheme") also dated 20 March 2003, wherein its board is entitled to grant options to grantees such that they can purchase Shares from Forward Strategic Investments Limited pursuant to the terms of the FS Scheme.

8. Mr. Anthony Francis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 32,201,692 Shares
9. Mr. Raymond Dennis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 4,818,450 Shares

Short positions in equity derivatives in, or in respect of, underlying Shares

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Nature of interests	Approximate percentage of interest (%)
Mr. Raymond Dennis Neoh	61,015,197 <i>(note 10)</i>	61,015,197	Interest in a controlled corporation <i>(note 10)</i>	7.62

Note:

10. Pursuant to the terms of the FS Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited (which is wholly owned by Mr. Raymond Dennis Neoh), Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

Save as disclosed above, as at 30 June 2004, none of the Directors and the chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHARE OPTIONS

Sotas Options

On 5 June 2003, the Company granted a share option to Sotas Limited which entitles Sotas Limited to acquire 8,331,615 Shares from the Company within 36 months from the date of listing of the Shares, at an aggregate exercise price of US\$600,000.

No share option was exercised during the six month period to 30 June 2004.

Share Option Scheme

The Company by shareholders' resolution passed at its special general meeting held on 18 July 2003, has adopted a share option scheme ("Scheme"). The principal purpose of the Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contributions to the Group.

As at 30 June 2004, 14,300,000 options have been granted under the Scheme to the Directors as follows, which are to be vested under designated schedules.

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)	Exercise price (HK\$)
Dr. David Deng Wei	8,000,000 options under the Scheme	8,000,000	Beneficial owner <i>(note 11)</i>	1.00	0.401
Mr. Gordon Kwong Che Keung	2,100,000 options under the Scheme	2,100,000	Beneficial owner <i>(note 12)</i>	0.26	0.401
Professor Japhet Sebastian Law	2,100,000 options under the Scheme	2,100,000	Beneficial owner <i>(note 12)</i>	0.26	0.401
Mr. Stephen Scharf	2,100,000 options under the Scheme	2,100,000	Beneficial owner <i>(note 12)</i>	0.26	0.401

Notes:

11. Three tranches of 3,000,000, 3,000,000, and 2,000,000 options vested on 23 June 2004, the date of approval of the grant of the option, the first and the second anniversary dates of the approval, respectively.
12. Three tranches of 700,000 options each vested on 23 June 2004, the date of approval of the grant of the option, the first and the second anniversary date of the approval.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, so far as is known to the Directors, the following, not being a Director or chief executive of the Company, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares and in equity derivatives in, or in respect of, underlying Shares

Name	No. of Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Sotas Limited	63,875,717	Beneficial owner <i>(note 1)</i>	7.98
Morningside Cyberventures Holdings Limited	63,875,717	Interest in a controlled corporation <i>(note 1)</i>	7.98
Verrall Limited	63,875,717	Interest in a controlled corporation <i>(note 1)</i>	7.98
Ms. Chan Tan Ching Fen	63,875,717	Founder of a trust <i>(note 1)</i>	7.98
Upflow Holdings Limited	275,137,713	Beneficial owner & interest in a controlled corporation <i>(notes 2 & 3)</i>	34.36
Forward Strategic Investments Limited	61,015,197	Beneficial owner <i>(note 2)</i>	7.62
Global Digital Creations Ltd.	61,015,197	Interest in a controlled corporation <i>(note 2)</i>	7.62
Cyber Prime Developments Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20

Name	No. of Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Billion On Development Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Festival Developments Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Kingsway China Holdings Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
SW Kingsway Capital Holdings Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
World Developments Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Innovation Assets Limited	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Kingsway International Holdings Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Mr. Choi Koon Shum Jonathan	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Ms. Kwan Wing Kum Janice	41,658,077	Interest of a spouse <i>(note 4)</i>	5.20

Notes:

1. Of the 63,875,717 Shares/equity derivatives, 55,544,102 Shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen, who was taken to be interested in the Shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the Shares on GEM. On 5 June 2003, Forward Strategic Investments Limited granted a share Option to Sotas Limited which entitles Sotas Limited to acquire 8,331,615 Shares from Forward Strategic Investments Limited within 36 months from the date of listing of the Shares at an aggregate exercise price of US\$600,000 (equivalent to approximately HK\$4,680,000).
2. The 61,015,197 Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh.
3. The 214,122,516 Shares were held by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh.
4. The 41,658,077 Shares were held by Cyber Prime Developments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway Capital Holdings Limited, which is held as to 74% of its total issued share capital by World Developments Limited, which is in turn a wholly-owned subsidiary of Innovation Assets Limited, which is in turn a wholly-owned subsidiary of Kingsway International Holdings Limited, which is held as to approximately 48% of its total issued share capital by Mr. Choi Koon Shum Jonathan (through himself and his controlled corporations). Ms. Kwan Wing Kum Janice is the spouse of Mr. Choi Koon Shum Jonathan.

Short positions in Shares and equity derivatives in, or in respect of, underlying Shares

Name	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Forward Strategic Investments Limited	61,015,197 <i>(note 5)</i>	61,015,197	Interest in a controlled corporation <i>(note 5)</i>	7.62
Global Digital Creations Limited	61,015,197 <i>(note 5)</i>	61,015,197	Interest in a controlled corporation <i>(note 5)</i>	7.62
Upflow Holdings Limited	61,015,197 <i>(note 5)</i>	61,015,197	Interest in a controlled corporation <i>(note 5)</i>	7.62

Notes:

5. Pursuant to the terms of the FS Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed in the paragraphs headed "Directors' and chief executives' interests or short positions in the shares, underlying shares or debentures" and "Interests discloseable under the SFO and substantial shareholders" above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares, underlying shares of the Company that is discloseable under the SFO.

Sponsor's Interests

Pursuant to the agreement entered into between the Company and Goldbond Capital (Asia) Limited (formerly known as Asia Investment Capital Limited), the sponsor of the Company, Goldbond Capital (Asia) Limited acts as the Company's continuing sponsor until 31 December 2005.

As at 30 June 2004, neither Goldbond Capital (Asia) Limited nor its directors, employees or associates (as referred to under note 3 to Rule 6.35 of the GEM Listing Rules) have any interests in any class of securities of the Company or any other members of the Group, or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.

Save as disclosed herein, there are no interests which the sponsor, its directors and employees and their associates have in relation to the Group as at the date hereof.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at 30 June 2004, the Directors are not aware that (i) the Group has made an advance to any entity which exceeded 8% of any percentage ratios; (ii) the Group has provided any financial assistance and guarantees to affiliated companies which exceeded 8% of any percentage ratios; (iii) the controlling shareholder of the Company has made any pledge over its shares to secure debts, guarantees or support of other obligation of the Group; (iv) the Group has entered into any loan agreements imposing specific performance obligations on any controlling shareholder and breach of such obligation will cause a default in respect of loans that are significant to the operations of the Company; and (v) the Group has breached the terms of any loan agreements that are significant to the operations of the Group such that the lender may demand immediate repayment and where the lender has not issued a waiver in respect of the breach. Hence, the Directors are not aware of any circumstances which give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS' DEALINGS IN SECURITIES

A code of conduct regarding directors' securities transactions adopted for the Group before the six-month period ending 30 June 2004 (the "Disclosure Policies") continued to be in force during the said six-month period. Such code of conduct covers, inter alia, prohibition of dealings in the securities of the Company during the blackout periods prior to the announcement of results or while in possession of price sensitive information. At a meeting of the Directors on 13 August 2004, the Board approved amendments to the Disclosure Policies and consequently the provisions regarding directors' securities transactions in the Disclosure Policies are no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry of all Directors, the Directors confirmed that, during the six-month period ended 30 June 2004, there was no non-compliance by the Directors with the said required standard of dealings or the said code of conduct.

AUDIT COMMITTEE

The Company has an audit committee established with written terms of reference in compliance with the GEM Listing Rules. The Group's interim condensed accounts for the six months ended 30 June 2004 have been reviewed by the audit committee, which is of the opinion that such accounts comply with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures have been made.

COMPETING INTEREST

Save as the competing interest as disclosed in the Company's prospectus dated 23 July 2003, none of the directors, management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has or may have any other conflict of interests with the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period under review.

COMPLIANCE WITH RULE 5.05(1) OF THE GEM LISTING RULES

Dato' Mohd Ibrahim bin Mohd Zain ("Dato' Ibrahim Zain"), former independent non-executive Director, and Mr. Richard Yin Yingeng ("Mr. Yin"), former president and executive Director, resigned from the Board on 10 June 2004 and 24 June 2004, respectively. The Board would like to express its gratitude to Dato' Ibrahim Zain and Mr. Yin for their valuation contributions and services to the Group.

As a result of the above, the Board has at present two independent non-executive Directors. Rule 5.05(1) of GEM Listing Rules stipulates that there should be at least three independent non-executive directors for any listed company. The Company is now in the process of identifying a suitable member of the Board to fulfill the requirement of Rule 5.05(1) by 30 September 2004.

As at the date of this announcement, the Board comprised Mr. Anthony Francis Neoh (Chairman and non-executive Director); Mr. David Deng Wei (Vice-chairman and non-executive Director); Mr. Raymond Dennis Neoh (executive Director); Mr. Stephen Scharf (non-executive Director); Mr. Gordon Kwong Che Keung, and Professor Japhet Sebastian Law (independent non-executive Directors).

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and the six months ended 30 June 2004

	Note	Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	9,370	2,701	15,291	4,159
Cost of sales		(7,177)	(1,664)	(12,065)	(2,723)
Gross profit		2,193	1,037	3,226	1,436
Other revenue	2	475	–	479	–
Other operating income		–	28	–	658
Administrative expenses		(9,419)	(4,616)	(18,664)	(9,128)
Other operating expenses		(1,144)	(764)	(2,153)	(1,410)
Operating loss	3	(7,895)	(4,315)	(17,112)	(8,444)
Finance costs		(1,142)	(1,756)	(2,182)	(3,220)
Loss for the period		(9,037)	(6,071)	(19,294)	(11,664)
Loss per share					
Basic	5	(1.14 cents)	(0.92 cents)	(2.46 cents)	(1.76 cents)
Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

	Note	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Non-current assets			
Fixed assets	6	34,843	35,984
Deferred tax assets	14	151	151
		34,994	36,135
Current assets			
Inventories, at cost	8	6,038	3,564
Production work in progress	7	93,454	75,666
Trade receivables	9	5,132	2,828
Prepayments, deposits and other receivables		4,820	5,902
Amounts due from a related company		19	19
Bank balances and cash			
– Pledged		2,000	–
– Unpledged		3,596	21,889
		115,059	109,868
Current liabilities			
Bank overdraft, secured		3,873	–
Bank loan, secured	13	28,286	14,143
Training fees received in advance		1,095	2,255
Advances from a director		–	416
Trade payables	9	4,741	2,566
Current portion of long-term liabilities	13	7,352	7,354
Other payables and accrued charges		17,237	11,204
Loans from shareholders	10	5,486	–
Other loans		7,797	7,797
		75,867	45,735
Net current assets		39,192	64,133
Total assets less current liabilities		74,186	100,268
Financed by:			
Share capital	11	8,008	7,800
Reserves	12	49,487	60,642
Shareholders' funds		57,495	68,442
Non-current liabilities			
Loans from a shareholder	10	11,536	11,536
Long-term liabilities	13	5,155	20,290
		74,186	100,268

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Note	Unaudited Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Total equity at beginning of period		68,442	5,427
Loss for the period	12	(19,294)	(11,664)
Issue of shares	11 & 12	8,744	40,200
Share issuance costs	12	(397)	(4,604)
Total equity at end of period		57,495	29,359

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Unaudited Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(28,797)	(25,666)
Net cash used in investing activities	(8,224)	(4,166)
Net cash from financing activities	16,855	51,358
Net (decrease)/increase in cash and cash equivalents	(20,166)	21,526
Cash and cash equivalents at 1 January	21,889	8,089
Cash and cash equivalents at 30 June	1,723	29,615
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	1,723	29,615

NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation of the unaudited condensed accounts

These unaudited consolidated condensed accounts have been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on GEM.

The accounting policies and methods of computation used in the preparation of these unaudited condensed accounts are consistent with those used in the financial statement for the year ended 31 December 2003.

In preparing the unaudited consolidated condensed accounts, the Directors have given careful consideration to the future liquidity of the Group which to a large extent depends on the timing of receipt of net proceeds from pre-sale contracts of the film "Thru the Moebius Strip", income from existing and new production contracts under negotiation, and the ability to refinance certain bank loans. In preparing the accounts on a going concern basis, the Directors believe that the Group should be able to obtain sufficient funding in the manner mentioned above as well as through other sources to continue operating as a going concern.

2. Turnover, revenue and segment information

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

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Training fees	1,083	517	2,169	1,200
Sales of goods	8,202	2,108	12,999	2,810
Box office receipts from distribution of digital motion pictures	–	38	–	73
Rental income from equipment leasing	–	19	–	38
Franchise fee from digital cinema for use of equipment	85	19	123	38
	9,370	2,701	15,291	4,159
Other revenue				
Interest income	2	–	6	–
Other income	473	–	473	–
Total revenues	9,845	2,701	15,770	4,159

The Group is organised into three main business segments including CG creation and production, digital content distribution and exhibitions and provision of CG training courses. An analysis of the Group's revenues and results for the period by business segment is as follows:

	Six months ended 30 June 2004				
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>-</u>	<u>13,122</u>	<u>2,169</u>	<u>-</u>	<u>15,291</u>
Segment results	<u>(3,722)</u>	<u>(4,534)</u>	<u>(3,847)</u>		<u>(12,103)</u>
Unallocated costs					<u>(5,009)</u>
Operating loss					<u>(17,112)</u>
Finance costs					<u>(2,182)</u>
Loss for the period					<u>(19,294)</u>
	Six months ended 30 June 2003				
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>-</u>	<u>2,959</u>	<u>1,200</u>	<u>-</u>	<u>4,159</u>
Segment results	<u>(1,682)</u>	<u>(3,879)</u>	<u>(516)</u>		<u>(6,077)</u>
Unallocated costs					<u>(2,367)</u>
Operating loss					<u>(8,444)</u>
Finance costs					<u>(3,220)</u>
Loss for the period					<u>(11,664)</u>

3. Operating loss

Operating loss is stated after crediting and charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Crediting				
Gain on disposal of fixed assets	–	28	–	658
Charging				
Cost of inventories sold	5,624	763	7,424	977
Depreciation (note a)	560	909	1,187	1,800
Exchange loss, net	19	21	27	40
Operating lease rentals on land and buildings (note b)	525	288	1,029	584
Research and development costs (note c)	1,126	743	2,126	1,370
Staff costs (note c)	3,203	1,635	6,886	3,531

Notes:

(a) Depreciation

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Depreciation				
– owned assets	547	751	3,756	1,441
– leased assets	1,056	1,473	2,021	2,977
	1,603	2,224	5,777	4,418
Less: amounts included in production work in progress	(1,043)	(1,315)	(4,590)	(2,618)
	560	909	1,187	1,800

3. Operating loss (Continued)

(b) Operating lease rentals on land and buildings

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Operating lease rentals on land and buildings	897	664	1,776	1,337
Less: amounts included in production work in progress	(372)	(376)	(747)	(753)
	525	288	1,029	584

(c) Staff costs (including directors' emoluments)

	Three months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Staff costs (including directors' emoluments)				
– wages and salaries	7,746	5,590	16,012	11,315
– other allowances and benefits	246	369	367	755
– retirement benefit costs	5	249	587	496
	7,997	6,208	16,966	12,566
Less: amounts included in production work in progress	(3,668)	(3,830)	(7,954)	(7,665)
Less: amounts included in research and development costs	(1,126)	(743)	(2,126)	(1,370)
	3,203	1,635	6,886	3,531

4. Taxation

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in or deriving from Hong Kong during the half year period to 30 June 2004 (2003: nil).

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.

5. Loss per share

Basic loss per share for the three months and the six months ended 30 June 2004 are calculated based on the loss for the period of HK\$9,037,000 and HK\$19,294,000 respectively and on an weighted average number of 790,753,187 shares and 785,376,593 shares respectively.

The comparative basic loss per share for the three months and the six months ended 30 June 2003 are calculated based on the loss for the period of HK\$6,071,000 and HK\$11,664,000 respectively and on an aggregate of 663,462,647 shares and 661,790,619 shares respectively, comprising (i) weighted average number of 40,203,765 shares and 40,102,446 shares respectively in issue and capitalization issue for the pre-listing investors of 3,158,871 shares and 1,588,162 shares respectively deemed to be in issue during the period; and (ii) 620,100,001 shares issued pursuant to the capitalization 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 three months ended 30 June 2004 is not presented because there was no dilutive potential ordinary shares in existence during the period (three months and six months ended 30 June 2003: Not applicable).

6. Fixed assets

	<i>HK\$'000</i>
Net book value as at 1 January 2004	35,984
Additions	4,586
Transfer in/(out)	50
Disposals	–
Depreciation	(5,777)
<hr/>	
Net book value as at 30 June 2004	34,843

7. Production work in progress

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Production costs incurred, at cost	93,454	75,666

Production work in progress represents production costs incurred for the film titled "Thru the Moebius Strip" (the "Film"), a movie project which has been completed, and "Panshel's World" a 52-episode animated series of television programme which is currently under production by the Group. The Directors are of the opinion that the production costs incurred as at 30 June 2004 are fully recoverable.

Interest in the Film was pledged as security to secure payments to a third party for services rendered in connection with the production of the Film.

8. Inventories, at cost

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Raw materials	2,827	938
Finished goods	3,211	2,626
	6,038	3,564

9. Trade receivables and trade payables

Aging analysis of trade receivables is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within three months	4,795	2,699
Three to six months	181	13
Over six months	156	116
	5,132	2,828

According to the agreements entered into between the Group and the digital cinemas, rental income and franchise fee are settled on a quarterly basis. The majority of sales of goods are on letter of credit against payment, the remaining amounts are granted with credit terms of 60 days.

Aging analysis of trade payables is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within three months	3,881	2,170
Three to six months	855	396
Over six months	5	-
	4,741	2,566

10. Loans from shareholders

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Repayable within one year:		
Mr. Anthony Francis Neoh	2,329	–
Bright Oceans Corporation (HK) Limited	3,157	–
	5,486	–
Repayable later than one year:		
Mr. Anthony Francis Neoh	11,536	11,536
	17,022	11,536

The loans from Mr. Anthony Francis Neoh and Bright Oceans Corporation (HK) Limited, both shareholders of the Company, are unsecured and bear interest at the best lending rate from time to time plus 3% per annum.

11. Share capital

	Note	Ordinary shares of HK\$0.01 each	
		Number of shares	HK\$'000
Authorised:			
At 30 June 2004 and 31 December 2003		1,200,000,000	12,000
Issued and fully paid:			
At 1 January 2004		780,000,000	7,800
Placement of new shares on 14 May 2004	(a)	20,820,000	208
At 30 June 2004		800,820,000	8,008

Notes:

- (a) On 5 May 2004, the Company announced that a placing and subscription agreement was entered into between Kingsway Financial Services Group Limited ("Kingsway") and the Company pursuant to which Kingsway had placed a total of 20,820,000 ordinary shares of HK\$0.01 each to independent places at a subscription price of HK\$0.42 per share.
- (b) At a special general meeting of the Company held on 18 July 2003, the share option scheme was approved and adopted. 14,300,000 share options were granted during the period to 30 June 2004 to directors of the Company under the share option scheme.

12. Reserves

	Contributed surplus <i>(note a)</i> HK\$'000	Share premium HK\$'000	Share issuance costs <i>(note b)</i> HK\$'000	Statutory reserve <i>(note c)</i> HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	40,271	-	(4,465)	415	48	(31,242)	5,027
Issue of shares	-	40,168	-	-	-	-	40,168
Share issuance costs	-	-	(4,604)	-	-	-	(4,604)
Loss for the period	-	-	-	-	-	(11,664)	(11,664)
At 30 June 2003	40,271	40,168	(9,069)	415	48	(42,906)	28,927
At 1 January 2004	40,271	84,299	-	538	48	(64,514)	60,642
Issue of shares	-	8,536	-	-	-	-	8,536
Share issuance costs	-	(397)	-	-	-	-	(397)
Loss for the period	-	-	-	-	-	(19,294)	(19,294)
At 30 June 2004	40,271	92,438	-	538	48	(83,808)	49,487

- (a) The difference between the nominal value of the shares of GDC (BVI) Limited and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation is accounted for as contributed surplus of the Group.
- (b) The share issuance costs were written off against the share premium account upon the listing of the Company's shares on GEM in August 2003.
- (c) As stipulated by the rules and regulations in China mainland, foreign investment enterprise are required to appropriate part of their after-tax profit (after offsetting prior year's losses) to certain statutory reserves. 環球數碼媒體科技研究(深圳)有限公司("IDMT"), as a wholly foreign owned enterprise established in the PRC, is required to appropriate 10% of its after-tax profit (after offsetting prior year's losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital thereafter any further appropriation is optional and is determinable by the Company's board of directors. The statutory reserve as at 31 December 2003 and 30 June 2004 represented the general reserve fund of IDMT of approximately HK\$415,000 and HK\$538,000 respectively, which can only be used, upon approval by the relevant authority, to offset prior year losses or to increase capital.

13. Long-term liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Bank loans, secured	28,286	28,286
Obligations under finance leases	12,507	13,501
	40,793	41,787
Current portion included in current liabilities	(35,638)	(21,497)
	5,155	20,290

14. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using rates of taxation prevailing in the countries in which the Group operates.

The movement on the deferred tax assets is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Deferred tax assets	151	151

Deferred income tax assets are recognised for tax loss carried forward and other deductible temporary difference to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 30 June 2004, the Group had unrecognised tax losses of HK\$3,779,000 (2003: HK\$948,000) to carry forward against future taxable income; these tax losses have no expiry date. In addition, the Group has unrecognised temporary difference arising from unrealised profit resulting from intra-group transactions of HK\$19,794,000 (2003: HK\$19,794,000). The Group did not recognise the deferred tax assets for such deductible temporary difference as the utilisation of the temporary difference is uncertain.

15. Capital commitments

At 30 June 2004, the Group had no significant capital commitments. (31 December 2003: nil)

16. Approval of the condensed accounts

The condensed accounts were approved by the board of directors on 13 August 2004.