



環球數碼創意控股有限公司*

GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 8271)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (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.

INTERIM RESULTS

The board of Directors of the Company (the “Board”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and the six months ended 30 June 2008 with comparative figures for the corresponding periods in 2007. These interim results have been reviewed by the Company’s Audit Committee and its Auditor.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the periods ended 30 June 2008

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2008 <i>HK\$'000</i> (unaudited)	2007 <i>HK\$'000</i> (unaudited)	2008 <i>HK\$'000</i> (unaudited)	2007 <i>HK\$'000</i> (unaudited)
Revenue	3	14,972	20,397	31,242	40,109
Cost of sales	5	<u>(19,283)</u>	<u>(10,681)</u>	<u>(35,253)</u>	<u>(18,180)</u>
Gross (loss) profit		(4,311)	9,716	(4,011)	21,929
Other income	6	852	1,491	2,176	9,047
Distribution costs and selling expenses		(1,770)	(655)	(4,479)	(2,540)
Administrative expenses		(12,925)	(14,940)	(27,803)	(24,776)
Finance costs	7	(853)	(1,003)	(1,533)	(3,430)
Share of loss of an associate		(253)	–	(662)	–
Other expense	8	(22,202)	–	(22,202)	–
Gain on dilution of interest in a subsidiary	9	<u>–</u>	<u>–</u>	<u>–</u>	<u>40,295</u>
(Loss) profit for the period		<u><u>(41,462)</u></u>	<u><u>(5,391)</u></u>	<u><u>(58,514)</u></u>	<u><u>40,525</u></u>
Attributable to:					
Equity holders of the Company		(39,775)	(4,138)	(54,580)	40,920
Minority interests		<u>(1,687)</u>	<u>(1,253)</u>	<u>(3,934)</u>	<u>(395)</u>
		<u><u>(41,462)</u></u>	<u><u>(5,391)</u></u>	<u><u>(58,514)</u></u>	<u><u>40,525</u></u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share:	12				
Basic		<u><u>(3.07)</u></u>	<u><u>(0.37)</u></u>	<u><u>(4.21)</u></u>	<u><u>4.19</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>4.02</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

		30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
	Notes		
Non-current assets			
Property, plant and equipment	13	15,851	14,780
Intangible asset	14	260,900	221,545
Prepaid lease payments		6,203	5,612
Interest in an associate	15	22,051	424
Advance payment for acquisition of intangible asset		–	35,581
		<u>305,005</u>	<u>277,942</u>
Current assets			
Inventories		44,855	6,761
Amounts due from customers for contract work	16	1,226	1,494
Trade receivables	17	13,788	11,502
Prepayments, deposits and other receivables		5,148	11,434
Prepaid lease payments		129	114
Amount due from an associate		–	1,053
Pledged bank deposit	18	2,808	7,800
Bank balances and cash		142,465	210,377
		<u>210,419</u>	<u>250,535</u>
Current liabilities			
Income received in advance		14,102	10,189
Amounts due to customers for contract work	16	296	1,440
Trade payables	19	32,386	4,197
Other payables and accruals		15,989	18,596
Amounts due to fellow subsidiaries		4,010	2,553
Amounts due to directors		–	2,912
Amounts due to other related parties		541	877
Tax liabilities		2,461	3,099
Loan from a fellow subsidiary		35,000	35,000
Obligations under finance leases		98	525
Secured bank borrowing	20	14,773	13,898
		<u>119,656</u>	<u>93,286</u>
Net current assets		<u>90,763</u>	<u>157,249</u>
Net assets		<u><u>395,768</u></u>	<u><u>435,191</u></u>

		30 June 2008	31 December 2007
	<i>Note</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Capital and reserves			
Share capital	21	12,952	12,952
Share premium and reserves		309,174	345,084
Equity attributable to equity holders of the Company		322,126	358,036
Share options reserve of a subsidiary		15,981	15,988
Minority interests		57,661	61,167
Total equity		395,768	435,191

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2008

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium account HK\$'000	Capital contribution reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000	Share options reserve of a subsidiary HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007 (audited)	8,008	92,438	445	40,271	680	5,590	(2,205)	-	(300,253)	(155,026)	317	-	(154,709)
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	(678)	-	-	(678)	-	-	(678)
Profit for the period	-	-	-	-	-	-	-	-	40,920	40,920	-	(395)	40,525
Total recognised (expense) income for the period	-	-	-	-	-	-	(678)	-	40,920	40,242	-	(395)	39,847
Sub-total	8,008	92,438	445	40,271	680	5,590	(2,883)	-	(259,333)	(114,784)	317	(395)	(114,862)
Shares issued	3,600	285,944	-	-	-	-	-	-	-	289,544	-	-	289,544
Transaction costs attributable to issue of shares	-	(6,707)	-	-	-	-	-	-	-	(6,707)	-	-	(6,707)
Increase in minority share in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	9,940	9,940
Exercise of share options	428	19,149	-	-	-	(4,716)	-	-	-	14,861	-	-	14,861
Recognition of equity-settled share-based payments	-	-	-	-	-	7,925	-	-	-	7,925	-	-	7,925
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	-	8	8	(8)	-	-
At 30 June 2007 (unaudited)	12,036	390,824	445	40,271	680	8,799	(2,883)	-	(259,325)	190,847	309	9,545	200,701
At 1 January 2008 (audited)	12,952	589,670	445	40,271	680	39,261	3,066	(46,366)	(281,943)	358,036	15,988	61,167	435,191
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	18,663	-	-	18,663	-	428	19,091
Loss for the period	-	-	-	-	-	-	-	-	(54,580)	(54,580)	-	(3,934)	(58,514)
Total recognised income (expense) for the period	-	-	-	-	-	-	18,663	-	(54,580)	(35,917)	-	(3,506)	(39,423)
Sub-total	12,952	589,670	445	40,271	680	39,261	21,729	(46,366)	(336,523)	322,119	15,988	57,661	395,768
Reduction of share premium account (Note)	-	(589,670)	-	589,670	-	-	-	-	-	-	-	-	-
Elimination of accumulated losses (Note)	-	-	-	(384,060)	-	-	-	-	384,060	-	-	-	-
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	-	7	7	(7)	-	-
At 30 June 2008 (unaudited)	12,952	-	445	245,881	680	39,261	21,729	(46,366)	47,544	322,126	15,981	57,661	395,768

Note: A special resolution was passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008 and completed thereafter that an amount of approximately HK\$589,670,000 standing to the credit of the share premium account of the Company as at 31 December 2007 has been reduced with the credit arising therefrom being transferred to the contributed surplus of the Company. Upon the said transfer became effective, an amount of approximately HK\$384,060,000 standing to the credit of the contributed surplus of the Company has been applied to eliminate the accumulated losses of the Company as at 31 December 2007. It has complied with the requirement of section 46(2) of The Companies Act 1981 of Bermuda (as amended). Details of which are set out in the circular of the Company dated 9 May 2008.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2008

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
(Loss) profit for the period	(58,514)	40,525
Adjustments for:		
Amortisation of intangible asset	14,098	–
Gain on dilution of interest in a subsidiary	–	(40,295)
Other non-cash items	3,947	4,278
Operating cash flows before movements in working capital	(40,469)	4,508
Movements in working capital	(7,322)	(43,235)
Cash used in operations	(47,791)	(38,727)
Income taxes paid	(809)	–
Net cash used in operating activities	(48,600)	(38,727)
Net cash used in investing activities:		
Investment in an associate	(21,084)	–
Purchase of property, plant and equipment	(4,545)	(15,340)
Acquisition of intangible asset	(1,798)	–
Prepaid lease payments	(314)	(5,262)
Decrease (increase) in pledged bank deposit	4,992	(7,903)
Other investing cash flows	2,710	1,487
	(20,039)	(27,018)
Net cash (used in) from financing activities:		
New bank loan raised	14,773	13,000
Proceeds from issue of shares, net of transaction costs	–	282,837
Proceeds from issue of shares by a subsidiary to a minority shareholder, net of transaction costs	–	50,235
Exercise of share options	–	14,861
Repayment of bank loan	(13,898)	(10,000)
Repayment to other related parties	(364)	(2,076)
Repayment to a fellow subsidiary	–	(74,861)
Repayment of other loans	–	(14,139)
Other financing cash flows	(885)	(4,521)
	(374)	255,336
Net (decrease) increase in cash and cash equivalents	(69,013)	189,591
Cash and cash equivalents at beginning of the period	210,377	8,596
Effect of foreign exchange rate changes	1,101	–
Cash and cash equivalents at end of the period	142,465	198,187

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended 30 June 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007. In the current period, the Group started to share box office receipts. Details of the accounting policy are described below.

Share of box office receipts

It is recognised when the digital motion pictures were exhibited using the digital cinema equipment sold by the Group and the right to receive certain percentage on the relevant box office receipts have been established.

In the current interim period, the Group has applied, for the first time, a number of new interpretations (“new Interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2008. The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new, revised or amended standards and interpretation that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company are in the process of assessing the impact of the other new or revised standards, amendments or interpretation on the results and the financial position of the Group.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers (less returns and trade discounts), computer graphic ("CG") creation and production income, revenue arising on training fee, distribution of digital motion pictures, share of box office receipts and technical service income during the period.

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

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods	5,916	3,846	9,127	12,456
CG creation and production income	3,697	13,883	11,298	22,252
Training fee	3,139	2,060	6,024	4,261
Receipts from distribution of digital motion pictures	1,221	–	1,221	–
Share of box office receipts	842	–	2,424	–
Technical service income	157	608	1,148	1,140
	<u>14,972</u>	<u>20,397</u>	<u>31,242</u>	<u>40,109</u>

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions – CG creation and production, digital content distribution and exhibitions, and the provision of CG training courses. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Six months ended 30 June 2008

	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	<u>12,519</u>	<u>12,699</u>	<u>6,024</u>	<u>31,242</u>
RESULT				
Segment result	<u>(7,965)</u>	<u>(41,770)</u>	<u>193</u>	(49,542)
Unallocated corporate income				1,658
Unallocated corporate expenses				(8,435)
Finance costs				(1,533)
Share of loss of an associate	–	(662)	–	<u>(662)</u>
Loss for the period				<u>(58,514)</u>

Six months ended 30 June 2007

	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	<u>22,252</u>	<u>13,596</u>	<u>4,261</u>	<u>40,109</u>
RESULT				
Segment result	<u>8,537</u>	<u>(128)</u>	<u>751</u>	9,160
Unallocated corporate income				5,649
Unallocated corporate expenses				(11,149)
Finance costs				(3,430)
Gain on dilution of interest in a subsidiary	–	40,295	–	<u>40,295</u>
Profit for the period				<u>40,525</u>

5. COST OF SALES

Cost of sales for the six months ended 30 June 2008 included amortisation of intangible asset of approximately HK\$14,098,000 in respect of the contracted rights acquired to share a specified percentage of the box office receipts, details of which are set out in note 14.

6. OTHER INCOME

Other income for the six months ended 30 June 2007 included waiver of interest payable on other loan from Win Real Management Limited and waiver of rental payable to a landlord, 深圳大學文化科技服務有限公司, in the amounts of approximately HK\$4,156,000 and HK\$3,228,000, respectively.

7. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Loan from a fellow subsidiary	523	713	1,047	2,892
Bank borrowing wholly repayable within five years	313	225	442	385
Loan from an other related party	10	42	28	91
Finance leases	7	23	16	59
Others	—	—	—	3
	<u>853</u>	<u>1,003</u>	<u>1,533</u>	<u>3,430</u>

8. OTHER EXPENSE

Other expense for the six months ended 30 June 2008 represents an one-off payment for film distribution rights in the People's Republic of China (the "PRC", for the purpose of this announcement, does not include Hong Kong, Macau and Taiwan) based on an agreement with China Film Group Corporation ("CFG"), the majority shareholder of an associate of the Group, during the period.

9. GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount for the six months ended 30 June 2007 represented the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) in January 2007.

10. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for both periods as the Group had no assessable profit arising in Hong Kong.

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the PRC and being approved by the relevant PRC tax authority, some subsidiaries in the PRC are eligible for an exemption from PRC Enterprise Income Tax ("EIT") for two years starting from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction in the next three years. For both periods, no provision for PRC EIT had been made in the condensed consolidated financial statements as those PRC subsidiaries were either exempted from PRC EIT or did not have assessable profit for the period.

11. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 and 2007.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) earnings				
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the period attributable to equity holders of the Company)	<u>(39,775)</u>	<u>(4,138)</u>	<u>(54,580)</u>	<u>40,920</u>
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,295,246	1,112,833	1,295,246	975,968
Effect of dilutive potential ordinary shares:				
– Options	<u>–</u>	<u>–</u>	<u>–</u>	<u>42,995</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>1,295,246</u>	<u>1,112,833</u>	<u>1,295,246</u>	<u>1,018,963</u>

No diluted loss per share has been calculated for the three months ended 30 June 2008 and 2007 and the six months ended 30 June 2008 as the exercise of the share options would result in a decrease in the loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Carrying values HK\$'000
At 1 January 2008	14,780
Additions	4,545
Depreciation for the period	(4,181)
Disposals	(11)
Exchange realignment	718
	<u>15,851</u>
At 30 June 2008	<u>15,851</u>

14. INTANGIBLE ASSET

	Carrying value HK\$'000
At 1 January 2008	221,545
Acquisition during the period	39,619
Amortisation during the period (included in cost of sales)	(14,098)
Exchange realignment	13,834
	<u>260,900</u>
At 30 June 2008	<u>260,900</u>

The cost of investment in the intangible asset represents consideration paid for acquisition of the contracted rights to share a specified percentage of the box office receipts from those cinemas in the PRC using the digital cinema equipment sold by the Group for exhibition of digital contents. The intangible asset has definite useful life and is amortised on a straight line basis over 10 years.

15. INTEREST IN AN ASSOCIATE

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Cost of investment in an unlisted associate	21,806	722
Share of post-acquisition results	<u>245</u>	<u>(298)</u>
	<u>22,051</u>	<u>424</u>

The increase in cost of investment mainly represented additional capital injection of approximately HK\$21,084,000 made by the Group to 中影首鋼環球數碼數字影院建設(北京)有限公司 CFGDC Digital Cinema Company Limited (“CFGDC”), a sino-foreign equity joint venture established in the PRC with 49% equity owned by the Group. CFGDC is principally engaged in the deployment of digital cinema network and related business and it has just commenced the business as at 30 June 2008.

16. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The following is details of contracts from CG production in progress at the balance sheet date:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Contract costs incurred plus recognised profits		
less recognised losses	8,375	19,137
Less: progress billings	<u>(7,445)</u>	<u>(19,083)</u>
	<u>930</u>	<u>54</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	1,226	1,494
Amounts due to customers for contract work	<u>(296)</u>	<u>(1,440)</u>
	<u>930</u>	<u>54</u>

17. TRADE RECEIVABLES

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade receivables	13,788	11,732
Less: Allowance for doubtful debts	<u>–</u>	<u>(230)</u>
	<u>13,788</u>	<u>11,502</u>

The Group allows different average credit periods to its trade customers depending on the type of products or services provided. The majority of sales of goods are on letter of credit against payment, the remaining amounts are granted with average credit terms of 90 days.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts at the balance sheet date:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Within three months	6,658	9,612
Three to six months	5,343	1,077
Over six months	<u>1,787</u>	<u>813</u>
	<u>13,788</u>	<u>11,502</u>

18. PLEDGED BANK DEPOSIT

The amount represents a deposit pledged to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement. As at 30 June 2008, the deposit carried interest rate of 2.3% (31 December 2007: 3.75%) per annum.

19. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Within three months	32,034	3,853
Three to six months	342	344
Over six months	10	—
	<u>32,386</u>	<u>4,197</u>

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

20. SECURED BANK BORROWING

During the six months ended 30 June 2008, the Group obtained a new bank loan of approximately HK\$14.8 million and repaid a bank loan of approximately HK\$13.9 million in accordance with the repayment terms. The new bank loan raised is secured by pledge of a property of a fellow subsidiary, carries interest at market rates of 8.217% (31 December 2007: 6.73%) per annum, and is repayable within twelve months from the balance sheet date. The proceed was used as general working capital for the Group.

21. SHARE CAPITAL

	Number of ordinary shares	Share capital HK\$'000
Ordinary share of HK\$0.01 each		
Authorised:		
At 1 January 2008 and 30 June 2008	<u>2,400,000,000</u>	<u>24,000</u>
Issued and fully paid:		
At 1 January 2008 and 30 June 2008	<u>1,295,245,540</u>	<u>12,952</u>

22. LITIGATION

On 14 May 2003, GDC Entertainment Limited (“GDC Entertainment”), a wholly-owned subsidiary of the Company, entered into a co-production agreement (the “Co-production Agreement”) with Westwood Audiovisual and Multimedia Consultants, Inc. (“WAMC”) and Production and Partners Multimedia, SAS (“P&PM”) in relation to an animated television series.

In about November 2004, P&PM and WAMC commenced proceedings against GDC Entertainment in the Court of Commerce of Angoulême (France) alleging breaches on the part of GDC Entertainment of the Co-production Agreement.

In relation to the French proceedings, the Group’s French legal advisers had advised that the enforcement of P&PM’s and WAMC’s claims should only be limited to the assets of GDC Entertainment.

Further, arbitration proceedings were commenced by GDC Entertainment against P&PM and WAMC in Hong Kong by way of a notice of arbitration dated 16 June 2005 issued pursuant to the Co-production Agreement. In the arbitration, issues had been raised by GDC Entertainment as to whether P&PM and/or WAMC was in repudiatory breach of the Co-production Agreement which entitled GDC Entertainment to terminate the same claim of damages from P&PM and WAMC. Pleadings have not yet been exchanged in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether the arbitrator has jurisdiction to hear the dispute which GDC Entertainment will refer to the arbitrator in the arbitration. The hearing of the application was held on 20 January 2006. Award of the arbitrator was published on the Issue of Jurisdiction on 23 March 2006 dismissing the application, and made an order for costs in GDC Entertainment’s favour in respect of the application. Since then, there has been no further step taken by the parties. GDC Entertainment has written to the arbitrator seeking directions for the further conduct of the arbitration, including the service of pleadings in the arbitration. GDC Entertainment is still waiting to hear from the arbitrator as to how she would like to proceed with the arbitration.

The Directors are of the opinions that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the condensed consolidated financial statements.

Effective from 1 May 2008, GDC Entertainment has been struck off and can be restored at any time up to ten years after the strike off date.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the six months ended 30 June 2008 was approximately HK\$31,242,000 when compared with that of approximately HK\$40,109,000 for the corresponding period in the year 2007, represented a decrease of approximately 22%. The decrease was mainly attributable to the decrease in revenue from CG creation and production and sales of goods by approximately HK\$10,954,000 and HK\$3,329,000, respectively, netting off with the share of box office receipts from the deployment of digital cinema network in the PRC cooperated by CFGC and the Group (the “PRC Digital Cinema Project”) of approximately HK\$2,424,000 during the period.

Cost of sales for the six months ended 30 June 2008 amounted to approximately HK\$35,253,000 which, comparing with that of approximately HK\$18,180,000 for the corresponding period in the year 2007, represented an increase of approximately 94%. The increase was mainly attributable to amortisation of intangible asset of the PRC Digital Cinema Project of approximately HK\$14,098,000.

The Group made a gross loss of approximately HK\$4,011,000 for the six months ended 30 June 2008. Comparing with the gross profit of approximately HK\$21,929,000 for the corresponding period in the year 2007, the decrease was mainly due to decrease in revenue and inclusion of amortisation of intangible asset in the amount of cost of sales.

Other income for the six months ended 30 June 2008 amounted to approximately HK\$2,176,000 (30 June 2007: HK\$9,047,000), representing a decrease of approximately 76%. The decrease was mainly due to the amount for the corresponding period in the year 2007 included an one-off income upon waiver of interest payable on other loan and rental payable amounted to approximately HK\$4,156,000 and HK\$3,228,000, respectively.

Administrative expenses for the six months ended 30 June 2008 amounted to approximately HK\$27,803,000 (30 June 2007: HK\$24,776,000), representing an increase of approximately 12%. The increase was as a result of growth in the operations of the Group.

Finance costs for the six months ended 30 June 2008 amounted to approximately HK\$1,533,000 (30 June 2007: HK\$3,430,000), representing a decrease of approximately 55%. The decrease was mainly attributable to decrease in interest to a fellow subsidiary of approximately HK\$1,845,000.

Other expense of approximately HK\$22,202,000 (30 June 2007: Nil) for the six months ended 30 June 2008 represented an one-off payment for film distribution rights in the PRC based on an agreement with CFGC.

Gain on dilution of interest in a subsidiary of approximately HK\$40,295,000 for the six months ended 30 June 2007 represented the gain on dilution of the Group's interest in GDC Technology from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) in January 2007.

Overall, the Group recorded loss of approximately HK\$54,580,000 for the six months ended 30 June 2008 attributable to equity holders of the Company, when compared with that profit of approximately HK\$40,920,000 for the corresponding period in the year 2007.

BUSINESS REVIEW AND OUTLOOK

Digital content distribution and exhibitions

The performance of digital content distribution and exhibitions division depends on two most important factors, namely Virtual Print Fees ("VPF") financing and direct orders from exhibitors. During the six months ended 30 June 2008, slow down of the negotiations of VPF between the Hollywood studios and the major exhibitors in the United States and the current banking crisis in the United States threw more doubts into the deployment of digital cinemas, it was expected that the deployment worldwide would be delayed. However, a NASDAQ listed company, which is the largest (VPF based) digital cinema deployment entity, signed a new VPF deal with four Hollywood studios for the second phase of deployment of another 10,000 digital cinemas in the United States, and a leading digital cinema service company in Europe signed a VPF deal with six Hollywood studios for the deployment of 8,000 digital cinemas there. Besides, at least ten 3D titles are planned for release in the year 2009, the demand for digital 3D cinema equipment would increase. As such, it is expected the deployment of digital cinemas worldwide has yet to begin.

The Group continues to deliver DSR™ range of products designed for the exhibitors around the world and develop new products that aim to meet more than the standard Digital Cinema Initiative ("DCI") specifications. At 2008 ShoWest convention in the United States, the Group launched a new digital cinema product – True 3D™ Digital Cinema System. The new True 3D™ server was demonstrated with two stacked DLP Cinema™ projectors, producing 4.5 ft-L of light to each eye. According to the industrial observers, this is the first and unique digital cinema server capable of playing full-bandwidth, 12-bit 4:4:4 color representation to two projectors. More importantly, the new True 3D™ server is able to present bigger and brighter 3D images than a single projector 3D and render 500 times more color information than those supplied by its competitors. At present, only the new True 3D™ server can meet the preferred requirement of the DCI stereoscopic specifications. The new True 3D™ server newly developed will differentiate the Group's digital cinema technology from its competitors.

In addition, the Group diversified certain DSR™ products to other markets which are not affected by the VPF deal, such as digital signage. During this period, the Group installed networked digital signage solutions to new customers in Asia including flagship cinema multiplexes in Hong Kong and major cities in the PRC.

As at 30 June 2008, the PRC Digital Cinema Project installed about 450 units of digital cinema equipment to cinemas in all the 27 provinces in the PRC and began to generate revenue during this period. CFGC and the Group is now considering to closer their cooperation by grouping their respective resources to their sino-foreign joint venture, CFGDC in order to process further the PRC Digital Cinema Project with an aim to promote the digital cinema business in the PRC.

The box office in the PRC during the six months ended 30 June 2008 continued to report a significant growth of above 50%, comparing with the corresponding period in the year 2007. Because of the blooming economy development and the strong domestic consumption in the PRC, it is expected that the box office will increase further in the future. With the continuing growth in the box office and the increase in the deployment of digital cinemas in the PRC, the performance of the PRC Digital Cinema Project will improve accordingly. Besides, CFGC and the Group have also explored the alternative revenue in addition to the share of box office receipts for the PRC Digital Cinema Project.

CG creation and production

Due to the slow down of global economy since late 2007, several clients postponed the commencement of their production plans, it resulted in lower revenue and incurred loss for the CG creation and production division during this period. Most of these projects did eventually commenced during this period, and the Group monitored the progress of them closely to ensure timely and high quality completion of these projects. Considering the value of orders signed and confirmed up to the date of this announcement, the performance of this division for the future twelve months will have significant growth both in revenue and profit when comparing with that for the year 2007 and this division is expected to be profitable for the whole year 2008 as well.

Besides, the Group is actively developing new clients and has secured several projects with some world leading entertainment brands for animated TV series and the theatrical film. The Group is also in discussion of co-production opportunities with several large North American and European children's entertainment content development and broadcasting companies. Many existing and prospective clients have expressed the desire for long term and multi-project relationship with the Group based on the demonstrated track record of offering reliable, cost effective, high quality CG production services to international market.

To deal with the expected growth in orders, the Group established a subsidiary in the city of Chongqing, the production studio there is under construction and the production capacity will be completed at the fourth quarter of the year 2008.

Furthermore, after the release of "Thru the Moebius Strip" in the year 2006, the Group's second full-length feature CGI film, "Happy Little Submarines", a co-production with a Hollywood leading animation studio, was released in June 2008 in over 260 digital cinema multiplies across the PRC and received positive box office receipts and media responses. The Group considered it should apply the gains from this children's film to help benefit kids in dire needs, the Group would donate its share of the box office receipts from the first three-day opening release of this film towards the effort of rebuilding an elementary school damaged by the recent earthquakes in Sichuan. Several international leading trade magazines covered and appraised this decision.

Following the success of its co-production effort, the Group will actively develop its original content creation business through different forms, including sole investment and co-production, in order to generate revenue from distribution and IP sales in addition to the existing CG creation and production revenue.

CG training

CG training division continues its strategy towards professionalism. Through continued improvement in the management system and infrastructure, comprehensive training materials for different categories, the Group maintained a leading position in the CG professional training domain in the PRC. This division recorded steady revenue growth of approximately 41% for the six months ended 30 June 2008, comparing with the corresponding period in the year 2007.

With the encouragement from the PRC government on subcontracting foreign CG projects and the development of domestic CG and game industries, many international well-know companies set up production centres in the PRC, the demand for equipped people in this field increased. In addition to the existing training courses on the knowledge of CG production, the Group opens a new professional training programme for the game industry, including comprehensive training materials and case studies, in line with the market needs. The Group also approaches several companies in the different kinds of CG animation and game industries to tailor make some advanced courses for upgrading their employees in accordance with their positions, with an aim to enhance the production capacity of those companies.

Besides, the Group cooperates with several famous high schools in the PRC for “Skill and Qualification” training programme for their students to achieve their aim to have “One Course, Several Certifications” and train up their practical production skills ready for the employment.

In addition to the Group’s training centres in Shanghai and Shenzhen, the Group plans to further expand its training network by setting up direct operation training sites throughout the PRC, the Group has already set up one site each in Chongqing and Wuxi.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had bank balances and cash of approximately HK\$142.5 million as at 30 June 2008 (31 December 2007: HK\$210.4 million) and pledged bank deposit of approximately HK\$2.8 million as at 30 June 2008 (31 December 2007: HK\$7.8 million) which were mainly denominated in United States dollars, Hong Kong dollars and Renminbi. The decrease was mainly from net cash used in the operating activities of approximately HK\$48.6 million and investment in an associate of approximately HK\$21.1 million.

As at 30 June 2008, the Group’s borrowings amounted to approximately HK\$49.8 million, of which were repayable within twelve months from 30 June 2008. All borrowings bear interest at market rates.

Gearing ratio (calculated as borrowings divided by equity attributable to equity holders of the Company) as at 30 June 2008 was approximately 15% (31 December 2007: 14%). As at 30 June 2008, the Group has current ratio of approximately 1.8 (31 December 2007: 2.7) based on current assets of approximately HK\$210.4 million and current liabilities of approximately HK\$119.7 million. The Group's leverage decreased was mainly attributable to loss for the period, and net cash used in operating activities and investment in an associate.

CAPITAL STRUCTURE

The equity attributable to equity holders of the Company amounted to approximately HK\$322.1 million as at 30 June 2008 (31 December 2007: HK\$358.0 million). The decrease was mainly due to loss for the six months ended 30 June 2008 attributable to equity holders of the Company of approximately HK\$54.6 million, netting off with the exchange differences on translation of foreign operations of approximately HK\$18.7 million.

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the capital injection to CFGDC as mentioned in note 15, the Group had no material acquisitions, disposals and significant investment during the six months ended 30 June 2008.

CHARGE ON ASSETS

As at 30 June 2008, the Group pledged a deposit amounted to approximately HK\$2.8 million (31 December 2007: HK\$7.8 million) to a bank to secure a purchase agreement entered into with an independent third party. The pledged bank deposit will be released upon the settlement of the relevant purchase agreement.

FOREIGN EXCHANGE EXPOSURE

Currently, the Group earns revenue in United States dollars and Renminbi, and incurs costs in United States dollars, Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 30 June 2008, the Group has no significant exposure under foreign exchange.

CONTINGENT LIABILITIES

Saved as disclosed in note 22 about litigation proceeding, the Group had no significant contingent liabilities as at 30 June 2008.

EMPLOYEES

As at 30 June 2008, the Group employed 420 (31 December 2007: 424) full time employees. The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to employee of the Group.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the period under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to rule 11.04 of the GEM Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the period:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Cao Zhong	Shougang Concord Grand (Group) Limited ("Shougang Grand") (Note 1)	Cultural recreation content provision (Note 2)	Vice chairman and managing director
Chen Zheng	Shougang Grand (Note 1)	Cultural recreation content provision (Note 2)	Managing director of operations
Leung Shun Sang, Tony	Shougang Grand (Note 1)	Cultural recreation content provision (Note 2)	Director

Notes:

1. Shougang Grand, the controlling shareholder of the Company, indirectly held approximately 52.57% interests in the Company as at 30 June 2008.
2. Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

Save as disclosed above, during the six months ended 30 June 2008, none of the Directors or the controlling shareholders of the Company or any of its subsidiaries or any of their respective associates, had any interests in a business which competed or may compete with the business of the Group.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules during the six months ended 30 June 2008.

APPRECIATION

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

By Order of the Board

Cao Zhong

Chairman

Hong Kong, 13 August 2008

As at the date of this announcement, the Board comprises Mr. Cao Zhong (Chairman), Mr. Chen Zheng (Managing Director), Mr. Jin Guo Ping (Deputy Managing Director), Ms. Lu Yi, Gloria (Deputy Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Kwong Che Keung, Gordon (Independent Non-executive Director), Professor Bu Fan Xiao (Independent Non-executive Director) and Mr. Hui Hung, Stephen (Independent Non-executive Director).

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

* *For identification purpose only*