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)

## FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2009

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**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.**

**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*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.*

* *For identification purpose only*

## FIRST QUARTERLY 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 ended 31 March 2009 with comparative figures for the corresponding period in 2008.

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

*For the three months ended 31 March 2009*

| | | **Three months ended 31 March** | |
|---|---|---|---|
| | | **2009** | 2008 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **71,120** | 16,270 |
| Cost of sales | *4* | **(52,588)** | (15,970) |
| Gross profit | | **18,532** | 300 |
| Other income | *5* | **6,605** | 1,324 |
| Distribution costs and selling expenses | | **(1,927)** | (2,709) |
| Administrative expenses | | **(15,076)** | (14,878) |
| Changes in fair value of held-for-trading investments | | **(327)** | – |
| Finance costs | *6* | **(475)** | (680) |
| Share of loss of an associate | | **(165)** | (409) |
| Profit (loss) before tax | | **7,167** | (17,052) |
| Income tax expense | *7* | **(1,034)** | – |
| Profit (loss) for the period | | **6,133** | (17,052) |
| Attributable to: | | | |
| Equity holders of the Company | | **4,365** | (14,805) |
| Minority interests | | **1,768** | (2,247) |
| | | **6,133** | (17,052) |
| | | ***HK cents*** | *HK cents* |
| Earnings (loss) per share | *8* | | |
| Basic | | **0.34** | (1.14) |
| Diluted | | **N/A** | N/A |

*NOTES:*

## 1. BASIS OF PREPARATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies used in the unaudited condensed consolidated income statement are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current period, the Group has applied, for the first time, a number of new and revised standards and amendments ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning on 1 January 2009. The adoption of these new HKFRSs 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 revised standards, amendments or interpretations that have been issued by the HKICPA but are not yet effective.

| | |
|---|---|
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 5 (Amendment) | Plan to Sell the Controlling Interest in a Subsidiary[1] |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers[2] |

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combinations 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. The Directors anticipate that the application of the other amendments or interpretations will have no material impact on the results and financial position of the Group.

## 3. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers (less sales related taxes, returns and trade discounts), computer graphic ("CG") creation and production services, revenue arising on training fee, royalty income from share of box office receipts, rental income from equipment leasing and technical service income during the period. An analysis of the Group's revenue is as follows:

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Sales of goods | **50,611** | 3,211 |
| Revenue from contracts for CG creation and production | **14,555** | 7,601 |
| Training fee | **4,508** | 2,885 |
| Royalty income from share of box office receipts | **570** | 1,582 |
| Rental income from equipment leasing | **482** | – |
| Technical service income | **394** | 991 |
| | **71,120** | 16,270 |

## 4. COST OF SALES

Cost of sales for the three months ended 31 March 2009 included amortisation of intangible asset, which represented contractual rights to share a specified percentage of the box office receipts from certain cinemas in the People's Republic of China (the "PRC", for the purpose of this announcement, does not include Hong Kong, Macau and Taiwan) using the digital cinema equipment installed by the Group for exhibition of digital contents, of approximately HK$633,000 (2008: HK$6,633,000).

## 5. OTHER INCOME

Other income for the three months ended 31 March 2009 included gain of approximately HK$5,670,000 (2008: Nil) on disposal of intangible asset to China Film Group Corporation ("CFGC"). This disposal was approved by shareholders of the Company at the Special General Meeting of the Company on 17 February 2009. Details of this disposal were set out in the circular of the Company dated 23 January 2009.

## 6. FINANCE COSTS

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Loan from a fellow subsidiary | **279** | 524 |
| Bank borrowing wholly repayable within five years | **196** | 129 |
| Loan from other related party | **–** | 18 |
| Finance leases | **–** | 9 |
| | **475** | 680 |

## 7. INCOME TAX EXPENSE

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **1,034** | – |

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

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the EIT rate of subsidiaries of the Group operating in the PRC was either remained at 25% or increased from 20% to 25% progressively from 1 January 2009 onwards. The relevant tax rates for the Group's subsidiaries in the PRC ranged from 20% to 25% (2008: 18% to 25%).

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary was granted two years tax exemption for the financial years ended 2007 and 2008 followed by a 50% reduction for the next three years.

## 8. EARNINGS (LOSS) PER SHARE

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

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| **Earnings (loss)** | | |
| Earnings (loss) for the purpose of basic earnings (loss) per share (Profit (loss) for the period attributable to equity holders of the Company) | **4,365** | (14,805) |

| | Three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share | **1,295,246** | 1,295,246 |

No diluted earnings per share has been presented for the three months ended 31 March 2009 as the exercise price of the share options was higher than the average market price for shares during the period.

No diluted loss per share had been calculated for the three months ended 31 March 2008 as the exercise of the share options could result in a decrease in the loss per share.

## 9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Capital contribution reserve | Contributed surplus | Statutory reserve | Share options reserve | Exchange reserve | Special reserve | Accumulated profits (losses) | Total | Share options reserve of a subsidiary | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2009 | 12,952 | – | 445 | 245,881 | 680 | 38,765 | 21,599 | (46,366) | 31,075 | 305,031 | 15,838 | 57,083 | 377,952 |
| Exchange differences on translation of foreign operations recognised directly in equity | – | – | – | – | – | – | (34) | – | – | (34) | – | (20) | (54) |
| Profit for the period | – | – | – | – | – | – | – | – | 4,365 | 4,365 | – | 1,768 | 6,133 |
| Total recognised (expense) income for the period | – | – | – | – | – | – | (34) | – | 4,365 | 4,331 | – | 1,748 | 6,079 |
| Sub-total | 12,952 | – | 445 | 245,881 | 680 | 38,765 | 21,565 | (46,366) | 35,440 | 309,362 | 15,838 | 58,831 | 384,031 |
| Cancellation of share options granted by a subsidiary | – | – | – | – | – | – | – | – | 5 | 5 | (5) | – | – |
| At 31 March 2009 | 12,952 | – | 445 | 245,881 | 680 | 38,765 | 21,565 | (46,366) | 35,445 | 309,367 | 15,833 | 58,831 | 384,031 |
| At 1 January 2008 | 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 | – | – | – | – | – | – | 12,502 | – | – | 12,502 | – | 492 | 12,994 |
| Loss for the period | – | – | – | – | – | – | – | – | (14,805) | (14,805) | – | (2,247) | (17,052) |
| Total recognised income (expense) for the period | – | – | – | – | – | – | 12,502 | – | (14,805) | (2,303) | – | (1,755) | (4,058) |
| At 31 March 2008 | 12,952 | 589,670 | 445 | 40,271 | 680 | 39,261 | 15,568 | (46,366) | (296,748) | 355,733 | 15,988 | 59,412 | 431,133 |

## INTERIM DIVIDEND

The Board did not declare an interim dividend for the three months ended 31 March 2009 (2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

Revenue for the three months ended 31 March 2009 was approximately HK$71,120,000, when compared with that of approximately HK$16,270,000 for the corresponding period in the year 2008, represented an increase of approximately 337%. The increase was mainly attributable to increase in revenue from sales of goods and contracts for CG creation and production by approximately HK$47,400,000 and HK$6,954,000, respectively.

Cost of sales for the three months ended 31 March 2009 amounted to approximately HK$52,588,000, when compared with that of approximately HK$15,970,000 for the corresponding period in the year 2008, represented an increase of approximately 229%.

The Group made a gross profit of approximately HK$18,532,000 for the three months ended 31 March 2009, representing a gross profit margin of approximately 26%. Comparing with the gross profit margin of approximately 2% for the corresponding period in the year 2008, the improvement was mainly due to decrease in amortisation of intangible asset in the amount of cost of sales by approximately HK$6,000,000.

Other income for the three months ended 31 March 2009 amounted to approximately HK$6,605,000 (2008: HK$1,324,000), representing an increase of approximately 399%. The increase was mainly due to the amount for this period included gain of approximately HK$5,670,000 (2008: Nil) on disposal of intangible asset to CFGC upon termination of the cooperation with CFGC for the deployment of digital cinema network in the PRC.

Administrative expenses for the three months ended 31 March 2009 amounted to approximately HK$15,076,000 (2008: HK$14,878,000), representing a slight increase of approximately 1%.

Overall, the Group recorded profit of approximately HK$4,365,000 for the three months ended 31 March 2009 attributable to equity holders of the Company, when compared with that loss of approximately HK$14,805,000 for the corresponding period in the year 2008.

## BUSINESS REVIEW AND OUTLOOK

### Digital content distribution and exhibitions

Attributed by increase in orders of digital cinema equipment from customers in the United States and the PRC during this period, sales of goods from the digital content distribution and exhibitions division reported a more than fourteen-fold increment to approximately HK$50,611,000 for the three months ended 31 March 2009, when compared with that for the corresponding period in the year 2008. Since the set up of the office in the United States in late 2007, the Group has begun its sales and marketing activities to build up a sales network with key resellers there and signed agreements with the two largest cinema service providers to offer services through their networks in the United States, sales of approximately 100 units of digital cinema servers were made during this period. In the PRC, upon termination of the cooperation with CFGC as mentioned above, the Group has been actively marketing its products to other key cinema chains landing orders from three key cinema chains in the PRC during this period.

The Group continues to market its products through participation in international trade exhibitions and high profile demonstration projects. In March 2009, the Group attended ShoWest 2009 with a strong line of product offerings which included an enhanced version of its best-selling digital cinema server, SA2100A, as well as its theatre management system, TMS1000. Together with other products for digital cinema mastering, cinema digital signage and integrated projection system, the Group is capable of offering exhibitors an all-round digital cinema solution and developing products that aim at meeting more than the standard Digital Cinema Initiative ("DCI") specifications, and can differentiate its technology from its competitors.

According to key industrial reports, the Hollywood studios are now supplying nearly all of their contents in the United States in digital format apart from a few specialised films. Together with more 3D titles coming, the digital cinema conversion worldwide will take place soon and the demand for digital cinema equipment continues to increase. In Asia, the Group has reached separate non-exclusive agreements with five of the six major Hollywood studios for digital cinema deployment across Asia, of which these studios are committed to supply Asian exhibitors with feature film content digitally, as well as to make financial contributions towards the hardware cost of DCI compliant digital cinema equipment deployed. This milestone signals the Group's on-going commitment to Asian exhibitors as a trusted partner in digital conversion.

### CG creation and production

Despite the global economy downturn, increase in CG production orders made the CG creation and production division recorded significant revenue growth by approximately 91% for the three months ended 31 March 2009 as compared with that of the corresponding period in the year 2008. At present, there are seven CG production projects in progress, including films, DVD and television series, the customers come from North America, Europe and Australia. Revenue generated from these projects is expected to be more than last year and this division is expected to make profit for the whole year 2009. Besides, two of the seven projects are co-production with large European and American animation content production and distribution companies, in which the Group has sole distribution right in the Chinese-speaking region and can share certain percentage from the global distribution. These partners actively work with the Group to insert "Chinese element" to these global project, the Group is proud of using the strong economic base and extensive distribution channels of these large children's entertainment content production companies to introduce Chinese culture to children around the world. The Group is looking forward to these new contents bringing reasonable return to the Group and its partners.

To deal with business growth and to increase market share, the Group's subsidiary in Chongqing has already commenced its production and employed more than 100 employees. The production centres in Shenzhen and Chongqing are now using advanced network and IT technology to establish an integrated operation platform so that employees, facilities and management system at these two locations can interflow together. This multi-site CG production increases the Group's ability in this CG business to expand the capacity and price adjustment, the Group can react promptly to changes in the market.

The Group is also actively developing new clients, several projects with world leading entertainment bands for animated television series and films are under negotiation. Many clients have expressed the desire for long-term and multi-project relationship with the Group based on the demonstrated track record of providing reliable, cost effective, high quality CG production services to international market.

### CG training

To ease the employment pressure, the PRC government encourages various types of vocational and technical training, the CG training division is benefited from this advantage and able to achieve an "Upstream" result under the financial crisis. This division recorded steady growth in revenue of approximately 56% for the three months ended 31 March 2009, when compared with that of the corresponding period in the year 2008.

In addition to the existing training courses for the knowledge of CG production, on-line and other games, the Group has organised new professional training programmes for after effects and virtual reality, including comprehensive training materials and case studies, to cope with the market needs. Besides, the Group continues to co-operate with several famous high schools for organising "Skill and Qualification" training programme to their students to achieve their aim to get "One Course, Several Certificates" and to train up their practical skills to get ready for work immediately after graduated.

In addition to the Group's training centres in Shanghai and Shenzhen and direct operation training sites in Chongqing and Wuxi, the Group plans to set up one more site each at the Southern and Northern to cover all the four directions of the PRC. At the same time, the Group will further develop its training network to those areas in the PRC with developed animation industry.

## 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.

## REVIEW OF FINANCIAL RESULTS

The Company's Audit Committee has reviewed the 2009 first quarterly results of the Group.

## 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, 11 May 2009

*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), Mr. Hui Hung, Stephen (Independent Non-executive Director) and Dr. Japhet Sebastian Law (Independent Non-executive Director).*

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