
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Global Digital Creations Holdings Limited, you should at once hand this circular (together with the proxy form) to the purchaser, the transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for onward transmission to the purchaser or the transferee.

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GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

CONTINUING CONNECTED TRANSACTION

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Board is set out on pages 3 to 8 of this circular and a letter from the Independent Board Committee is set out on pages 9 to 10 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 19 of this circular.

A notice convening the Special General Meeting to be held at JW Marriot Ballroom, Level 3, JW Marriot Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on 6th June, 2007 at 9:45 a.m. is set out on pages 28 to 29 of this circular. A form of proxy for use at the Special General Meeting is enclosed with this circular. Whether or not you are able to attend and vote at the Special General Meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Special General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting (as the case may be) should you so wish.

* For identification purpose only

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CHARACTERISTICS OF GEM

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 of the Stock Exchange 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.

DEFINITIONS

In this circular, the following expressions shall have the following meanings, unless the context otherwise requires:

“associates”	has the meanings ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Global Digital Creations Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the GEM of the Stock Exchange
“Continuing Connected Transactions”	the transactions contemplated under the Master Supply Agreement
“Director(s)”	the director(s) of the Company
“GDC Tech”	GDC Technology Limited, a company incorporated in the British Virgin Islands, which is owned as to approximately 56.25% by the Company, as to approximately 32.5% by Greater Appeal and as to approximately 11.25% by the management of GDC Tech
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Greater Appeal”	Greater Appeal Investment Limited, a company incorporated in the British Virgin Islands and is ultimately beneficially wholly-owned by Mr. Li Ka-shing
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board comprising Mr. Kwong Che Keung, Gordon, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen being the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions

DEFINITIONS

“Independent Financial Adviser”	Access Capital Limited, a licensed corporation under the SFO and engages in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Master Supply Agreement
“Independent Shareholders”	the Shareholders other than Shougang Grand and its associates
“Latest Practicable Date”	30 April 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and any amendments thereto
“Master Supply Agreement”	the master supply agreement entered into between Shougang Grand and GDC Tech on 11 April 2007
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the shares of the Company
“Shenzhen IDMT”	Institute of Digital Media Technology (Shenzhen) Limited, a company incorporated in the PRC and is a wholly-owned subsidiary of the Company
“Shougang Grand”	Shougang Concord Grand (Group) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and the holding company of the Company
“Special General Meeting”	the special general meeting of the Company to be held to approve the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions or any adjournment thereof
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“%”	per cent.

LETTER FROM THE BOARD



GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

Executive Directors:

Mr. Cao Zhong (*Chairman*)

Mr. Chen Zheng (*Chief Executive Officer*)

Mr. Jin Guo Ping (*Vice President*)

Dr. Xu Qing, Catherine (*Vice President*)

Registered office:

Clarendon House

Church House

Hamilton HM11

Bermuda

Non-Executive Director:

Mr. Leung Shun Sang, Tony

Principal place of business

in Hong Kong:

6/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Independent Non-Executive Directors:

Mr. Kwong Che Keung, Gordon

Prof. Bu Fan Xiao

Mr. Hui Hung, Stephen

3 May 2007

To the Shareholders:

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

The Board announced that on 11 April 2007, GDC Tech, a non-wholly owned subsidiary of the Company, and Shougang Grand entered into the Master Supply Agreement pursuant to which GDC Tech agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related products and services.

Shougang Grand is a substantial shareholder and is interested as to approximately 57.69% in the issued share capital of the Company as at the date of this circular. GDC Tech is a non-wholly owned subsidiary of the Company in which the Company is interested as to approximately 56.25% of its issued share capital. Accordingly, transactions between GDC Tech and Shougang Grand constitute continuing connected transactions for the Company under the GEM Listing Rules.

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LETTER FROM THE BOARD

As the annual amount of the Continuing Connected Transactions is expected to exceed the thresholds provided in Rule 20.34(1) and (2) of the GEM Listing Rules, the Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 20.35 of the GEM Listing Rules. Shougang Grand and its associates are required to abstain from voting in the Special General Meeting to be held to approve the Continuing Connected Transactions.

The Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Master Supply Agreement and the Independent Financial Adviser has been appointed to advise the Independent Board Committee of the Company on the terms of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

The purpose of this circular is:

- (i) to provide the Shareholders with further details of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions;
- (ii) to set out the opinion of the Independent Financial Adviser in respect of the terms of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the terms of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions; and
- (iv) to give notice of the Special General Meeting to consider and, if thought fit, to approve the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

THE MASTER SUPPLY AGREEMENT

Date: 11 April 2007

Parties: Shougang Grand, a substantial shareholder of the Company; and GDC Tech, an indirect non-wholly owned subsidiary of the Company and Shougang Grand.

Subject: Pursuant to the Master Supply Agreement, GDC Tech agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related equipment and services.

Condition: The Master Supply Agreement is subject to approval by the Independent Shareholders and the approval by the independent shareholders of Shougang Grand, respectively.

Term: The Master Supply Agreement has a term expiring on 31 December 2009.

LETTER FROM THE BOARD

Price: The basis of determining the prices for the Continuing Connected Transactions will be in accordance with: (1) a comparable market price; or (2) by agreement between the parties on an arm's length basis, if no comparable market price can be taken as a reference.

Payment: Payments for the Continuing Connected Transactions shall be on credit terms to be agreed between the parties in accordance with the normal term of supplies GDC Tech offered to third parties; or such other methods as may be reasonably requested by GDC Tech.

The Directors propose that the cap amounts of the Continuing Connected Transactions under the Master Supply Agreement for each of the period ending 31 December 2007 and the two financial years ending 31 December 2009 will not exceed the following cap amounts:

	For the period ending 31 December 2007 <i>US\$'000</i>	For the financial year ending 31 December 2008 <i>US\$'000</i>	For the financial year ending 31 December 2009 <i>US\$'000</i>
Proposed cap amounts for the Continuing Connected Transactions:			
Equipment	100,000	100,000	100,000
Services	3,000	4,500	6,000
	<hr/>	<hr/>	<hr/>
Total	103,000	104,500	106,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The cap amounts are determined with reference to the anticipated future sales of digital cinema equipment and services provided by GDC Tech to Shougang Grand and/or its associates for the period to be covered by the Master Supply Agreement. Save as announced by Shougang Grand on 4 April 2007 on the purchase of 4 units of digital cinema integrated projection system from GDC Tech by Shenzhen IDMT, a wholly-owned subsidiary of the Company and hence an associate of Shougang Grand, for a sum of US\$240,000 (approximately HK\$1,860,000), there has been no previous transaction of a similar nature between GDC Tech and Shougang Grand. Digital cinema is in the initial period of deployment in the PRC, and it is expected to replace the traditional cinema screens in the PRC. The cap amounts were determined, having taken into consideration of the deployment plan of the digital cinema business pursuant to the cooperation between Shenzhen IDMT and China Film Group Corporation (the “**China Film Group**”). China Film Group is the largest and the most influential state-run film enterprise in the PRC. It is the major importer of foreign film in the PRC. The co-operation with the China Film Group is expected to be implemented in the near future and the Company aimed at installing 1,500 units of digital cinema equipment installing in the PRC in each of the coming years.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company announced on 31 October 2006 that it has entered into a co-operation agreement with China Film Group to jointly promote digital cinema businesses in the PRC. The transactions are for the purpose of developing the digital cinema business of Shenzhen IDMT pursuant to the co-operation with the China Film Group. GDC Tech is principally engaged in the provision of computing solutions for

LETTER FROM THE BOARD

digital content distribution and exhibitions, and the digital cinema equipment it produces are advanced in design and technology and reaches international standards.

The Directors consider that the Continuing Connected Transactions are of the types that are entered into in the ordinary and usual course of business of the Company on a frequent and regular basis. Therefore, the Directors consider that it would be: (i) impracticable to negotiate for numerous agreements with Shougang Grand for the Continuing Connected Transactions; and (ii) too costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the GEM Listing Rules. Hence, the Directors (including the independent non-executive Directors) are of the view that the Master Supply Agreement is beneficial to the Group and the Independent shareholders as a whole.

GDC Tech is owned as to 56.25% by the Company. Shougang Grand is a substantial shareholder and is interested as to approximately 57.69% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, the transactions contemplated under the Master Supply Agreement between GDC Tech and Shougang Grand and/or its associates constitute continuing connected transactions for the Company under the GEM Listing Rules.

As the annual amount of the Continuing Connected Transactions is expected to exceed the thresholds provided in Rule 20.34(1) and (2) of the GEM Listing Rules, the Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules. Shougang Grand and its associates are required to abstain from voting in the Special General Meeting to be convened for the approval of the Continuing Connected Transactions. The votes to be taken at the Special General Meeting shall be by poll.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group and the terms of the Continuing Connected Transactions have been negotiated and will be conducted on an arm's length basis and on normal commercial terms between Shougang Grand and GDC Tech. The Directors (including the independent non-executive Directors) are therefore of the view that the Continuing Connected Transactions and the terms thereof are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

GENERAL

The Company and its subsidiaries are principally engaged in the digital content business, encompassing creation, production and distribution of digital contents. Shougang Grand is an investment holding company and its subsidiaries are principally engaged in property investment and management, cultural mass media and financial services.

The Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Master Supply Agreement and the Independent Financial Adviser has been appointed to advise the Independent Board Committee in respect of the terms of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

LETTER FROM THE BOARD

SPECIAL GENERAL MEETING

A notice convening the Special General Meeting to be held at JW Marriot Ballroom, Level 3, JW Marriot Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on 6 June, 2007 at 9:45 a.m. is set out on pages 28 and 29 of this circular for the purpose of considering and, if thought fit, passing the resolutions as set out therein.

A form of proxy for use by the Shareholders at the Special General Meeting is enclosed. Whether or not you are able to attend the Special General Meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Hong Kong branch share registrars and transfer office of the Company in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting thereof should you so wish.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Bye-Law 66 of the Bye-laws of the Company, a resolution put to the vote of a general meeting of the Company shall be decided on a show of hands unless a poll (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) is demanded:

- (a) by the chairman of the meeting; or
- (b) by at least three Shareholders present in person or by duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or by duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by any Shareholder or Shareholders present in person or, by duly authorised corporate representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or
- (e) by the chairman of the meeting and/or the Directors individually or collectively hold proxies in respect of Shares holding 5% or more of the total voting rights at such meeting.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 9 to 10 of this circular which contains its recommendation to the Independent Shareholders on the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

LETTER FROM THE BOARD

Your attention is also drawn to the letter of advice from the Independent Financial Adviser which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions and the principal factors and reasons considered by it in concluding its advice. The letter from Independent Financial Adviser is set out on pages 11 to 19 of this circular.

Your attention is also drawn to the general information set out in the appendix of this circular.

Yours faithfully,
By Order of the Board of
GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED
Cao Zhong
Chairman and Executive Director

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of the Master Supply Agreement.



GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

3 May 2007

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 3 May 2007 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from Access Capital Limited, the independent financial adviser (the “**Independent Financial Adviser**”) appointed to advise the Independent Board Committee and the Independent Shareholders of the terms of the Master Supply Agreement as set out on pages 11 to 19 of the Circular and the letter from the Board set out on pages 3 to 8 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the terms of the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the

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LETTER FROM INDEPENDENT BOARD COMMITTEE

Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions to be proposed at the Special General Meeting.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Kwong Che Keung, Gordon
*Independent Non-executive
Director*

Professor Bu Fan Xiao
*Independent Non-executive
Director*

Mr. Hui Hung, Stephen
*Independent Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.



Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

3 May 2007

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to (i) the terms of the Master Supply Agreement; and (ii) the relevant cap amounts in relation to the Continuing Connected Transactions. Details of the Continuing Connected Transactions are contained in the “Letter from the Board” set out in the circular to the shareholders of Company dated 3 May 2007 (the “Circular”), of which this letter forms part. The terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

On 11 April 2007, GDC Tech, a 56.25% owned subsidiary of the Company, and Shougang Grand entered into the Master Supply Agreement pursuant to which GDC Tech has agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related products and services for a term expiring on 31 December 2009.

Given Shougang Grand is a substantial shareholder and is interested as to approximately 57.69% in the issued share capital of the Company as at the Latest Practicable Date, the transactions contemplated under the Master Supply Agreement entered into between GDC Tech and Shougang Grand and/or its associates constitute continuing connected transactions for the Company under the GEM Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the annual amount of the Continuing Connected Transactions is expected to exceed the thresholds provided in Rule 20.34(1) and (2) of the GEM Listing Rules, the Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules. Shougang Grand and its associates are required to abstain from voting in the Special General Meeting to be convened for the approval of the Continuing Connected Transactions. The votes to be taken at the Special General Meeting shall be by poll.

II. THE INDEPENDENT BOARD COMMITTEE

The Board of the Company currently consists of four executive Directors, namely Mr. Cao Zhong (Chairman), Mr. Chen Zheng (Chief Executive Officer), Mr. Jin Guo Ping (Vice President) and Dr. Xu Qing, Catherine (Vice President), one non-executive Director, Mr. Leung Shun Sang, Tony, and three independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen.

The Independent Board Committee comprising the independent non-executive Directors, Mr. Kwong Che Keung, Gordon, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen, has been established to consider (i) the terms of the Master Supply Agreement; and (ii) the relevant cap amounts in relation to the Continuing Connected Transactions.

We have been appointed by the independent board committee to advise them and the Independent Shareholders as to whether (i) the terms of the Master Supply Agreement; and (ii) the relevant cap amounts in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion in relation to the Continuing Connected Transactions for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. BASES OF AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Master Supply Agreement

1.1 Background to the Continuing Connected Transactions

The principal activities of the Group comprise the digital content business, encompassing creation, production and distribution of digital contents.

On 11 April 2007, GDC Tech, a 56.25% owned subsidiary of the Company, and Shougang Grand entered into the Master Supply Agreement pursuant to which GDC Tech agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related products and services.

Given Shougang Grand is a substantial shareholder and is interested as to approximately 57.69% in the issued share capital of the Company as at the date of the Latest Practicable Date, transactions contemplated under the Master Supply Agreement entered into between GDC Tech and Shougang Grand and/or its associates constitute continuing connected transactions for the Company under the GEM Listing Rules.

1.2 Overall financial performance of the Group

We note from the annual report of the Company for the year ended 31 December 2006 that the Group recorded an audited revenue of approximately HK\$54.9 million, representing a growth of approximately 70.6% over the previous year. Such increase was contributed by increase in revenue from computer graphics creation and production and computer graphics training courses.

During the financial year ended 31 December 2006, gross profit increased to approximately HK\$24.8 million, comparing with the gross loss of approximately HK\$27.4 million of the previous year. Such improvement was mainly attributable to the success of the Group's strategy of entering into the business of subcontractor of computer graphics ("CG") creation and production. The audited loss of the Company amounted to approximately HK\$30.2 million, representing an improvement of approximately 60.4% from the previous year. As at 31 December 2006, the Company had net liabilities of approximately HK\$154.7 million. Although the financial performance of the Group has continued to improve due to (i) the successful implementation of the Group's strategy of entering into the business of subcontracting the CG creation and production, (ii) the increase in both number of training course provided and the number of students attending each course and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) the decrease in cost of sales as a result of the increase in efficiency in CG creation and production, the sustainability of the financial performance of the Group depends on, amongst other things, the availability of financial resources to roll out the business plan and the successful implementation of the business strategy.

Reference is also made to the announcement of the Company dated 16 March 2007 in respect of, amongst other things, the placing and subscription of 120,000,000 existing and new Shares (the “Top-up Subscription”) respectively and the subscription of an additional 100,000,000 new Shares by Upper Nice Assets Ltd., an indirect wholly owned subsidiary of Shougang Grand (the “Subscription”) at a price of HK\$0.54 per Share. Part of the net proceeds from the Top-up Subscription and the Subscription of approximately HK\$75 million will be applied for the deployment of digital cinema network project in the PRC and the remaining balance will be used as working capital of the Group and for repayment of loans. The Subscription was approved by the then independent shareholders of the Company on 23 April 2007.

1.3 Key terms of the Master Supply Agreement

Details of the Master Supply Agreement are set out in the “Letter from the Board”. In sum, the key terms thereof are as follows:

- the Master Supply Agreement has a fixed term expiring on 31 December 2009;
- the basis of determining the prices for the Continuing Connected Transactions will be in accordance with: (1) a comparable market price; or (2) by agreement between the parties on an arm’s length basis, if no comparable market price can be taken as a reference; and
- payment for the Continuing Connected Transactions shall be on credit terms to be agreed between the parties in accordance with the normal term of supplies GDC Tech offered to third parties; or such other methods as may be reasonably requested by GDC Tech.

We understand from the senior management of the Company that the digital cinema integrated projection system (the “Projection System”) to be supplied under the Master Agreement consists of two main components, namely (i) the projector which is sourced from an independent supplier and (ii) the digital cinema server developed by GDC Tech. Details of the sourcing agreements with such independent supplier are set out in the announcement of the Company dated 21 February 2007.

As at the Latest Practicable Date and accordingly to the Company’s confirmation, we noted that GDC Tech has not sold any Projection System to any independent customers. Although there is no third party sales for reference, we have reviewed the pricing for the projector (sourced from an independent supplier) and the digital cinema server (developed by GDC Tech) separately in order to assess the fairness and reasonableness of prices for the transactions under the Master Supply Agreement. We have reviewed (i) the contract for the supply of the projectors which is sourced from an independent supplier; (ii) the historical samples of invoices of digital cinema

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

servers between the Company and its independent customers (i.e. independent of and not connected with the Company, its connected persons or its associates); and (iii) a separate supply agreement dated 4 April 2007 between GDC Tech and IDMT Shenzhen, an indirect wholly-owned subsidiary of the Company and a non-wholly owned subsidiary of Shougang Grand (“Supply Agreement”) for the supply of 4 units of Projection System.

We noted that from the prices under the Supply Agreement for the Projector System between GDC Tech and Shougang Grand were similar to the combined prices for (i) the projector (sourced from independent third party); and (ii) the digital cinema servers (supplied to independent customers).

1.4 Reasons for Continuing Connected Transactions

The Company announced on 31 October 2006 that it has entered into a co-operation agreement with China Film Group Corporation (the “China Film Group”) to jointly promote digital cinema businesses in the PRC. The transactions are for the purpose of developing the digital cinema business of IDMT Shenzhen pursuant to the co-operation with the China Film Group. GDC Tech is principally engaged in the provision of computing solutions for digital content distribution and exhibitions, and the digital cinema equipment it produces are advanced in design and technology and reaches international standards.

As stated in the “Letter from the Board”, the co-operation with China Film Group is expected to be implemented in the near future and the Company aimed at installing 1,500 units of digital cinema equipment at major cinemas in the PRC in each of the coming years.

The Directors consider that the Continuing Connected Transactions are of the types that are entered into in the ordinary and usual course of business of the Company on a frequent and regular basis. Therefore, the Directors consider that it would be: (i) impracticable to negotiate for numerous agreements with Shougang Grand for the Continuing Connected Transactions; and (ii) too costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the GEM Listing Rules. Hence, the Directors (including the independent non-executive Directors) are of the view that the Master Supply Agreement is beneficial to the Company and the Independent shareholders as a whole.

1.5 Our view

Given (i) the transactions contemplated under Master Supply Agreement will enter into in the ordinary and usual course of business of the Company and on a frequent and regular basis; (ii) by entering into the Master Supply Agreement, the Group can formalise its business arrangements (in terms of the length of the supply contract, the pricing and the payment method) with Shougang Grand; and (iii) in view of the terms of the price for the past transactions between GDC Tech and Shougang Grand under the Supply Agreement were in line with the combined prices from independent supplier (for projector) and independent customers (for digital cinema servers), we concur with the Directors that the entering into of the Master Supply Agreement is in the ordinary and usual course of business of the Company and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, taking into account the favourable market condition of cinema and movie industry in the PRC, details of which are set out under the heading “2.3 Overview of cinema and movie industry in the PRC” below, and the aim to expedite the deployment of digital cinema equipment in the PRC, we are of the view that by entering into the Master Supply Agreement, it is expected to accelerate the speed to roll out the business plan and to further improve the profitability of the Group.

2. The proposed cap amounts in relation to the Continuing Connected Transactions

2.1 Background to the proposed cap amounts

The Directors propose that the cap amounts of the Continuing Connected Transactions under the Master Supply Agreement for each of the period ending 31 December 2007 and the two years ending 31 December 2009 will not exceed the following cap amounts:

	For the period ending 31 December 2007 US\$'000	For the year ending 31 December 2008 US\$'000	For the year ending 31 December 2009 US\$'000
Proposed cap amounts for the Continuing Connected Transactions:			
Equipment	100,000	100,000	100,000
Services	3,000	4,500	6,000
Total	<u>103,000</u>	<u>104,500</u>	<u>106,000</u>

2.2 Basis for determining the proposed cap amounts

As stated in the “Letter from the Board”, the cap amounts are determined with reference to the anticipated future sales of digital cinema equipment and services provided by GDC Tech to Shougang Grand and/or its associates for the period to be covered by the Master Supply Agreement. Save as announced by Shougang Grand on 4 April 2007 on the purchase of 4 units of Projection System from GDC Tech by Shenzhen IDMT, a wholly-owned subsidiary of the Company and hence an associate of Shougang Grand, for a sum of US\$240,000 (approximately HK\$1,860,000), there has been no previous transaction of a similar nature between GDC Tech and Shougang Grand. Digital cinema is in the initial period of deployment in the PRC, and it is expected to replace the traditional cinema screens in the PRC. The cap amounts were determined, having taken into consideration of the deployment plan of the digital cinema business pursuant to the cooperation between Shenzhen IDMT and China Film Group. China Film Group is the largest and the most influential state-run film enterprise in the PRC. It is the major importer of foreign film in the PRC. The co-operation with the China Film Group is expected to be implemented in the near future and the Company aimed at installing 1,500 units of digital cinema equipment installing in the PRC in each of the coming years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the senior management of the Company and understand that the services contemplated under the Master Supply Agreement are related to the technology support and maintenance of the Projection System and the basis of the cap for the services is in line with the increase in number of digital cinema equipment to be deployed in each of the coming years. We have reviewed a service agreement entered into between GCD Tech and China Film Group and noted that the service fee per unit charged to China Film Group by GDC Tech under the service agreement is comparable to the service fee per unit to be charged by the Group under the Master Supply Agreement for the year ending 31 December 2007. The service fee per unit for each of the two years ending 31 December 2008 and 2009 is expected to decrease as the number of Projection System to be installed increases.

Based on the purchase of 4 units of Projection System from GDC Tech by Shenzhen IDMT for a sum of US\$240,000, i.e. US\$60,000 per unit and the intention to deploy 1,500 units of digital cinema equipment per year, the total amount would reach US\$90 million for each of the period ending 31 December 2007 and the two years ending 31 December 2009.

Accordingly, notwithstanding the fact that the Company raised additional funding under the Top-up Subscription and the Subscription, the successful implementation of the business strategy for the deployment of the digital cinema equipment in the PRC would depend on the availability of additional financial resources to roll out its business plan.

2.3 Overview of cinema and movie industry in the PRC

According to that State Administration of Radio, Film and Television, the PRC's cinema box-office receipt increased by approximately 60% to RMB1.5 billion in 2004 and further increased by approximately 33% to RMB2 billion in 2005. In 2006, the cinema box-office receipts further rose 30% to a record high of RMB2.6 billion, aided by the government's campaign against piracy. The number of domestic produced feature films grew to 330 from 260 in 2006.

The strong growth at the box office boosted the total revenue for movie in 2006 to RMB5.7 billion, up 19% from RMB4.8 billion in 2005. The industry also received a boost from overseas sales, which rose 15% to RMB1.9 billion. In 2006, a total of 82 cinemas were constructed with 366 new screens, adding to the existing 2,668 screens in 1,243 cinemas.

	2004	2005	2006
Cinema box-office receipts (RMB billion)	1.5	2.0	2.6
Total revenue for the movie industry (RMB billion)	3.6	4.8	5.7
Number of cinemas	1,188 ¹	1,243	1,325
Number of screens	2,396 ¹	2,668	3,034
Growth rate (%)	N/A	11%	13%

Sources:

1. Shanghai Daily dated 11 March 2005, quotations from a director of the Film Bureau of the State Administration of Radio, Film and Television
2. Statistic Information of the State Administration of Radio, Film and Television

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to research figures issued by an independent institute, in 2005, the penetration rate for the number of persons per screen in the PRC accounted for 230,000 person/screen, while the penetration rate in Korea, United State of America, Hungary and Sweden accounted for 40,000 person/screen, 8,123 person/screen, 10,000 person/screen and 7,407 person/screen respectively. We also noted from an article regarding a research conducted by an independent institute dated 31 January 2007 that suggested that with the fast growing economy and the vast population in the PRC, the PRC has the potential to become the world largest cinema and home entertainment market. Such independent institute also forecasts that by 2010, the box-office revenue would exceed US\$720 million (approximately RMB5.6 billion) by 2010, representing more than double as compared to the year 2006 and with the increase in the number of screen in line with the growth in box-office revenue, the number of screens would reach 5,000 by the year 2010. In addition, we also understand from senior management of the Company that the Company is one of the few companies worldwide to possess the standard for digital cinema equipment to reach specifications issued by the Digital Cinema Initiatives, LLC ("DCI"). DCI was established in March 2002 as a joint venture by major studios in Hollywood. Thus, we are of the view that there is room and demand for the cinema industry to grow in the PRC, which, in turn, will benefit the Group as a result.

2.4 *Our view*

In view of:

1. the favourable market environment of cinema and movie industry in PRC, in particular, the potential growth for the cinema industry;
2. the cap amounts are determined with reference to the anticipated future sales of digital cinema equipment and services provided by GDC Tech to Shangang Grand and/or its associates for the period to be covered by the Master Supply Agreement;
3. the intention to install 1,500 units of digital cinema equipment in each of the coming years in major cinemas in the PRC with reference to the average selling price per unit; and
4. the cooperation with China Film Group, being one of the most influential state-run film enterprise in the PRC coupled with the technological know-how of the digital cinema equipment of the Group;

we believe that it is justifiable for the Directors to determine the proposed cap amounts by reference to the anticipated future sales of digital cinema equipment and services. Accordingly, we are of the view that the proposed cap amounts for both the equipment and services contemplated under the Master Supply Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

V. RECOMMENDATION

Having considered the principal factors and reasons referred to in the above, we consider that (i) the terms of the Master Supply Agreement and (ii) the relevant cap amounts in relation to the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Company and are fair and reasonable so far as the Independent Shareholders are concerned and that it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the ordinary resolution in relation to the Master Supply Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions, to be proposed at the Special General Meeting.

Yours faithfully,

For and on behalf of

ACCESS CAPITAL LIMITED

Jeanny Leung Jimmy Chung

Managing Director Vice President

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading, there are no other matters the omission of which would make any statement contained herein misleading and all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in shares and underlying shares of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were 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 positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares and underlying shares of the Company:

Name of Director	Number of shares/underlying shares held in the Company				
	Personal interests	Other interests	Equity derivatives interests (share options)*	Total interests	Approximate percentage of shares in issue
Cao Zhong	–	–	8,008,200	8,008,200	0.81%
Chen Zheng	8,008,200	–	–	8,008,200	0.81%
Leung Shun Sang, Tony	8,008,200	–	–	8,008,200	0.81%
Jin Guo Ping	–	–	8,008,200	8,008,200	0.81%
Xu Qing, Catherine	–	–	8,008,200	8,008,200	0.81%
Kwong Che Keung, Gordon	–	–	800,820	800,820	0.08%
Bu Fan Xiao	–	–	800,820	800,820	0.08%
Hui Hung, Stephen	800,820	–	–	800,820	0.08%

* The relevant interests are unlisted physically settled equity derivatives pursuant to the GDC share option scheme adopted on 18 July 2003. The options at subscription price of HK\$0.30 per share may be exercised in accordance with the terms of the share option scheme in full at any time within three years from 6 October 2006 and the options will expire at the close of business on 5 October 2009. The share options are personal to the respective Directors.

Long positions in shares and underlying shares of GDC Technology Limited (“GDC Tech”)

Name of Director	Number of Shares/underlying Shares held in the GDC Tech				
	Personal interests	Other interests	Equity derivatives interests (share options)*	Total interests	Approximate percentage of shares in issue
Cao Zhong	4,266,667	–	4,266,667	8,533,334	5.29%
Chen Zheng	4,266,667	–	4,266,667	8,533,334	5.29%
Leung Shun Sang, Tony	2,130,000	–	3,333	2,133,333	1.32%
Kwong Che Keung, Gordon	–	–	1,706,667	1,706,667	1.06%
Xu Qing, Catherine	–	–	320,000	320,000	0.20%

* The relevant interests are unlisted physically settled equity derivatives pursuant to GDC Tech’s share option scheme adopted on 19 September 2006. The options at subscription price of HK\$0.145 per share may be exercised in accordance with the terms of the share option scheme in full at any time within three years from 29 September 2006 and the options will expire at the close of business on 28 September 2009.

Long positions in shares and underlying shares in Shougang Grand:

Name of Director	Number of Shares/underlying Shares held in the Shougang Grand				
	Personal interests	Other interests	Equity derivatives interests (share options)*	Total interests	Approximate percentage of shares in issue
Cao Zhong	8,278,679	–	11,368,000	19,646,679	1.73%
Chen Zheng	–	–	11,368,000	11,368,000	1.00%
Leung Shun Sang, Tony	8,278,000	–	11,368,679	19,646,679	1.73%

* The relevant interests are unlisted physically settled equity derivatives pursuant to Shougang Grand’s share option scheme adopted on 7 June 2002 (the “Scheme”). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.01 each in the share capital of Shougang Grand are issuable. The share options are personal to the respective Directors.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed in this circular, none of the Directors or proposed Director is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO.

(b) Service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(c) Directors' interests in competing businesses

As at the Latest Practicable Date, the interests of the Directors in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

Name of Director	Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which were considered to compete or likely to compete with the businesses of the Group	Nature of interest(s) of the director in the entity
Cao Zhong	Shougang Grand (Note 1)	Property investment and management, financial services and cultural recreation content provision (Note 2)	Vice-chairman and managing director
Chen Zheng	Shougang Grand (Note 1)	Property investment and management, financial services and cultural recreation content provision (Note 2)	Managing director of operation
Leung Shun Sang, Tony	Shougang Grand (Note 1)	Property investment and management, financial services and cultural recreation content provision (Note 2)	director

Notes:

- (1) Shougang Grand through Upper Nice Assets Ltd. indirectly holds approximately 57.69% interests in the Company.
- (2) Those businesses are carried out through its subsidiaries or associates or by way of other form of investments.

Save as disclosed above, as at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or management shareholders or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

(d) Directors' interests in assets and contracts

None of the Directors had any direct or indirect interest in any assets which have been acquired or disposed or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

None of the Directors was materially interested, directly or indirectly, in any contract or arrangements entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the latest practicable date, 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 of the Company 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 the Shares

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Percentage of interest as to the issued share capital of the Company	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests in controlled corporation	670,890,023	67.91%	1
Shougang Concord Grand (Group) Limited ("Shougang Grand")	Interests in controlled corporation	670,890,023	67.91%	1
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	670,466,023	67.91%	1
Keywise Capital Management (HK) Limited	Investment manager	70,842,000	7.17%	2
Keywise Greater China Opportunities Master Fund	Beneficial owner	49,926,000	5.05%	2

Notes:

- (1) Upper Nice is an indirectly wholly-owned subsidiary of Shougang Grand which is incorporated in Bermuda as an exempted company with limited liability with its securities listed on the main board of the Stock Exchange and is regarded to be held as to approximately 37.83% by Shougang Holding as recorded under the register Shougang Grand kept under Section 336 of the SFO. The interests held by Upper Nice are included in the interests held by both of Shougang Grand and Shougang Holding.
- (2) Keywise Capital Management (HK) Limited is an investment manager incorporated in Hong Kong and licensed with the Securities and Futures Commission. Keywise Greater China Opportunities Master Fund is incorporated in Cayman Islands as an exempted company with limited liability and it is under the management of Keywise Capital Management (HK) Limited. The interests held by Keywise Greater China Opportunities Master Fund are included in the interests held by Keywise Capital Management (HK) Limited.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. LITIGATION

As at the Latest Practicable Date, the Group is engaged in the following litigation or arbitration of material importance:

- (a) 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 which the Group has a 25% equity interest, 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 Angouleme (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 have 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 Coproduction 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. The arbitrator published her Award 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 apart from recently. 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.

- (b) On 16 August 2006, 深圳大學文化科技服務有限公司 (“**Shenzhen University**”) commenced legal action in the People's Court (Nanshan District) (“**Nanshan Court**”) in the PRC against Shenzhen IDMT, a wholly-owned subsidiary of GDC for, among others, unpaid rent, related expenses and compensation in the amount of RMB8,960,000. On 14 September 2006, Shenzhen IDMT filed a counterclaim against Shenzhen University for, among others, compensation for renovation fee and relocation expenses in the amount of approximately RMB10,726,000 and RMB6,000,000 respectively and returns of rental deposit. On 19 March 2007, Shenzhen University filed an application to the Nanshan Court to withdraw its claim against Shenzhen IDMT. On 22 March 2007, Shenzhen IDMT filed an application to the Nanshan Court to withdraw its counterclaim against Shenzhen University. Both applications were approved by the Nanshan Court on 10 April 2007.

Save as disclosed above, neither the Company nor any other members of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positing of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

6. QUALIFICATION AND CONSENT OF EXPERT

Access Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they appear.

The qualification of the expert who has provided its advice which is contained in this circular is as follows:

Name	Qualification
Access Capital Limited	A corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any Business Day at the head office and principal place of business of the Company in Hong Kong at 6/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the Special General Meeting:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2006;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 9 to 10 of this circular;
- (d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 11 to 19 in this circular;
- (e) the written consent from the Independent Financial Adviser referred to in paragraph 6 of this Appendix; and
- (f) the Master Supply Agreement.

8. MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at 6th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) The Company's principal share registrar and transfer office is The Bank of Bermuda Limited, Bank of Bermuda Building, 6 Front Street, Hamilton HM11, Bermuda and the Company's Hong Kong branch share registrar and transfer office is Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Foo Man Yee, Carina, who is an associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and holds a master degree in business administration.
- (d) The qualified accountant of the Company is Mr. Tsang Yu Tit who is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants and holds a bachelor degree of arts in accountancy.
- (e) The compliance officer of the Company is Mr. Chen Zheng who is also an executive Director.

- (f) The Company has established an audit committee with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee comprises of Mr. Kwong Che Keung, Gordon, Mr. Bu Fan Xiao and Mr. Hui Hung, Stephen, all of whom are independent non-executive Directors. For the details of Mr. Kwong Che Keung, Gordon, Mr. Bu Fan Xiao and Mr. Hui Hung, Stephen, please refer to pages 31 and 32 of the Company's annual report for the year ended 31 December 2006.
- (g) The English text of this circular shall prevail over the Chinese text.

NOTICE OF SPECIAL GENERAL MEETING



GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8271)

NOTICE IS HEREBY GIVEN that a special general meeting of Global Digital Creations Holdings Limited (the “**Company**”) will be held at JW Marriot Ballroom, Level 3, JW Marriot Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 6 June 2007 at 9:45 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“THAT

- (a) the master supply agreement (the “**Master Supply Agreement**”) dated 11 April 2007 entered into between Shougang Concord Grand (Group) Limited (“**Shougang Grand**”) and GDC Technology Limited (“**GDC Tech**”), a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, pursuant to which, GDC Tech has agreed to supply Shougang Grand and/or its associates with digital cinema equipment and network management and other related equipment and services (the “**Continuing Connected Transactions**”), be and is hereby approved, ratified and confirmed;
- (b) the cap amounts in relation to the Continuing Connected Transactions for the period ending 31 December 2007 of US\$103,000,000 and each of the two financial years ending 31 December 2009 of US\$104,500,000 and US\$106,000,000, respectively, be and are hereby approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Master Supply Agreement.”

Yours faithfully,

By Order of the Board of

GLOBAL DIGITAL CREATIONS HOLDINGS LIMITED

Cao Zhong

Chairman and Executive Director

Hong Kong, 3 May 2007

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:

6/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number and class of the shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged at the Company's principal place of business in Hong Kong at 6/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company shall alone be entitled to vote in respect of such share.
6. The resolution shall be voted by way of poll by shareholders who are not interested or involved in the Master Supply Agreement, being shareholders other than Shougang Grand and their associates.

As at the date of this notice, the board of directors comprises Mr. Cao Zhong (Chairman and Executive Director), Mr. Chen Zheng (Chief Executive Officer and Executive Director), Mr. Jin Guo Ping and Dr. Xu Qing, Catherine (Vice Presidents and Executive Directors), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Kwong Che Keung, Gordon, Professor Bu Fan Xiao and Mr. Hui Hung, Stephen (Independent Non-Executive Directors).