



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



Interim Report 2003

*For identification purpose only

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

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COMPANY INFORMATION

Executive Director & Chief Executive Officer

Mr. Raymond Dennis Neoh

Non-Executive Directors

Mr. Anthony Francis Neoh (*Chairman*)

Mr. David Deng Wei

Mr. Richard Yin Yingneng

Independent Non-Executive Directors

Mr. Gordon Kwong Che Keung

Professor Japhet Sebastian Law

Mr. Stephen Scharf

Chief Technology Officer

Dr. Chong Man Nang

Chief Financial Officer &

Qualified Accountant

Mr. Adrian Mak Yau Kee, FCA, AHKSA

Company Secretary

Ms. Amelia Mak Lai Yu

Mr. Ira Stuart Outerbridge III*

Audit Committee

Mr. Gordon Kwong Che Keung

(Chairman)

Professor Japhet Sebastian Law

Mr. Stephen Scharf

Remuneration Committee

Professor Japhet Sebastian Law

(Chairman)

Mr. David Deng Wei

Mr. Richard Yin Yingneng

Authorised Representatives

Mr. Raymond Dennis Neoh

Ms. Amelia Mak Lai Yu

Bermuda Resident Representative

Mr. John C. R. Collis

Bermuda Deputy Resident

Representative

Mr. Anthony D. Whaley

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Hamilton HM 11

Bermuda

Auditors

PricewaterhouseCoopers

Sponsor

Asia Investment Capital Limited

Legal Adviser

Gallant Y. T. Ho & Co

Property Valuer

Grant Sherman Appraisal Limited

Principal Bankers

Hang Seng Bank

The Development Bank of Singapore Ltd.

Standard Chartered Bank

Shenzhen Commercial Bank

Bank of China

Principal Share Registrar and

Transfer Office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

Hong Kong Share Registrar and

Transfer Office

Standard Registrars Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

* Assistant secretary of the Company

SUMMARY

- The Group recorded turnover of HK\$4,159,000 and a gross profit of HK\$1,436,000 for the six months ended 30th June, 2003, representing a gross margin of 34.5%. These represented a sharp increase of about 304% over a turnover of HK\$1,029,000 and over a gross loss of HK\$515,000 recorded in the same period last year. Overall, the Group made a net loss of HK\$11,664,000 for the six months ended 30th June, 2003 (2002: HK\$6,472,000). Management anticipates that turnover will increase, as further sales and deliveries are made to Adlabs and to other customers. With the repayments of the shareholders' and other loans made post 30th June, 2003, finance costs are expected to fall significantly in the future. Management will continue to monitor the Group's expenditure to ensure that it is kept under strict control.
- Substantial improvements in net current assets and current ratio were noted at 30th June, 2003. The net current assets were approximately HK\$52,346,000 (31st December, 2002: HK\$10,988,000) representing an increase of about 376%, whilst the current ratio was 2.05 (31st December, 2002: 1.26).
- Gearing ratio also improved significantly from 1,233% as at 31st December, 2002 to 265% as at 30th June, 2003.
- The placement of 58,300,000 Shares and public offer of 8,000,000 Shares received satisfactory results during the initial public offering of Shares in July 2003. Trading of the Shares began on 4th August, 2003.
- The Group began the sale and delivery of the first batch of units of DSR™ digital film servers, the Group's proprietary digital cinema product, to Adlabs in March 2003, under a total order of 1,400 units to be delivered over a 5-year period ending January 2008. Up to 30th June, 2003, 36 units of DSR™ digital film servers had been shipped and installed in cinemas in India. In addition, the Group delivered one unit of DSR™ digital film agile encoder to Adlabs in March of 2003.
- The production of the Group's CG animated high definition full feature film "*Thru the Moebius Strip*" is well underway as the Group progressed into its final production phase. The film is targeted for completion in the last quarter of 2003 and the Group would commence its release in the first quarter of 2004.
- Whilst our Shenzhen CG training course has begun to process the students' applications for the fourth batch of student intake in September 2003, preparation for the Group's CG training course in the Chang Ning District in Shanghai is well underway, with its operation commencement date targeted in the last quarter of 2003.

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

The Directors are pleased to present the interim report and condensed accounts of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June, 2003. The condensed accounts of the Group, which include the consolidated profit and loss account for the three months and the six months ended 30th June, 2003, the consolidated statement of changes in equity and consolidated cash flow statement for the six months ended 30th June, 2003 and the consolidated balance sheet as at 30th June, 2003, all of which are unaudited and condensed and along with selected explanatory notes, are set out on pages 23 to 36 of this report.

Financial review

Turnover of the Group for the six months ended 30th June, 2003 was approximately HK\$4,159,000 which, when compared with the turnover of HK\$1,029,000 for the six months ended 30th June, 2002, represented a sharp increase of about 304%. Comparing the quarter ended 30th June, 2003 with the quarter ended 30th June, 2002, turnover of the Group had also increased significantly by about 481%.

During the six months ended 30th June, 2003, the Group commenced to deliver its digital cinema equipment to Adlabs Films Limited (“Adlabs”) in India. The total sales of digital cinema equipment during the six months ended 30th June, 2003 was approximately HK\$2,810,000 (2002: nil). In the next six months ending 31st December, 2003, we expect to deliver at a more rapid pace. This substantial increase reflects that the Group has moved from its research and development phase for digital cinema equipment into its production phase, following the successful commercialisation of its DSR™ digital film servers and agile encoders.

Up to 30th June, 2003, 36 units of DSR™ digital film servers had been sold, shipped and installed in cinemas operated by Adlabs. In addition, the Group delivered one unit of DSR™ digital film agile encoder to Adlabs in March of 2003. Taking into further account of the two sets of digital cinema equipment respectively installed at the Grand Theatre and Shanghai Paradise Warner Cinema City* in Shanghai, the People’s Republic of China (“PRC”), the Group had, as at 30th June, 2003, provided digital cinema equipment to 38 cinemas in Asia. We expect to meet our digital cinema business targets as set out in the Company’s prospectus dated 23rd July, 2003 (the “Prospectus”) by year’s end.

* For identification purposes only

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

The Group continued to account for revenue from the computer graphic (“CG”) training course in Shenzhen, which is being operated in cooperation with Shenzhen University. The training course, which had a total intake of 150 students and ran from September 2002 to June 2003 in its third year of operation, provided a steady revenue stream for the Group. Approximately HK\$1,200,000 of training fees were accounted for during the six months ended 30th June, 2003. When compared with the fees received for the same period last year of approximately HK\$957,000, there was an increase of 25.4%. Further, the Group will start to provide CG training course in Chang Ning District in Shanghai.

The Group made a gross profit of approximately HK\$1,436,000 for the six months ended 30th June, 2003, representing a gross profit margin of 34.5%. As a comparison, the Group incurred a gross loss of approximately HK\$515,000 for the same period last year.

Administrative expenses for the six months ended 30th June, 2003 totaled HK\$9,128,000 (2002: HK\$4,497,000). The increase was attributable to, inter alia, the increase in personnel costs reflecting the rise in the Group’s managerial headcount, and the legal and professional fees called upon as a result of increase in business activities. The Directors are keeping a close eye on such expenses to ensure that they are kept under strict control. Other operating expenses for the period of approximately HK\$1,410,000 (2002: HK\$1,182,000) which mostly represented the costs of research and development for the Group’s digital cinema technology.

During the first six months of 2003, the Group was dependent heavily on finance provided by certain shareholders, related parties and a third party by way of loans, advances, and a convertible note. As a result, the relatively high costs of interest, typically in the region of the best lending rate plus 3% and in one case 15% per annum, carried by these borrowings, were reflected in the high finance costs which totaled HK\$3,220,000 for the period (2002: HK\$283,000). As a side note, a shareholders’ and other loans totalling HK\$16,400,000 had been repaid subsequent to 30th June, 2003. As such, we anticipate a substantial reduction in the finance costs in the future.

Overall, the Group incurred a net loss of approximately HK\$11,664,000 for the six months ended 30th June, 2003, which represented an increase of 80% over the loss of approximately HK\$6,472,000 incurred in same period of last year.

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

The costs for the making of the film “*Thru the Moebius Strip*” continued to be capitalised and included under production work-in-progress in the balance sheet, in accordance with the Group’s accounting policy on film costs and films under production. The production costs incurred to 30th June, 2003 for this film amounted to approximately HK\$55,961,000 (31st December, 2002: HK\$43,564,000), which are in line with the total budgeted costs of approximately HK\$78,000,000. Based on Directors’ view, no impairment losses are considered necessary, as the income anticipated from the exhibition of the film on commercial screens and the income from related products is sufficient to cover the costs. As stated in the Prospectus, the Directors anticipate that the film will be completed in the last quarter of 2003 and would commence its release during the first quarter of 2004.

Business review

Digital content distribution and exhibition

- The Group attended ShoWest in Las Vegas, the United States of America (the “US”), which is an annual convention for the motion picture industry with delegates from more than 50 different countries in attendance each year, for the promotion of DSR™ digital film server and agile encoder in March 2003.
- The Group sold and delivered 36 DSR™ digital film servers to Adlabs during March and June of 2003.
- The Group sold and delivered one unit of DSR™ digital film agile encoder to Adlabs in March 2003.

Research and development

- The Group migrated to newer digital cinema technology with the primary interests to lower production cost, improve production pipeline, and improve reliability.
- The Group began Near-Term Application-Specific (NTAS) Research with the primary interests to improve competitive edge and meet new (customers/markets) requirements.
- The Group began Mid-To-Long-Term Application-Specific (MTLTAS) Research with the primary interest to develop new products, markets, and applications.

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

CG creation and production

- The Group attended the American Film Market exhibition for the pre-sale of the film “*Thru the Moebius Strip*” in February 2003.
- The Group conducted post-production of the film “*Thru the Moebius Strip*” in Los Angeles, the US.
- The Group commenced negotiation with an international distributor of the film, “*Thru the Moebius Strip*”, for worldwide distribution except for North America, Japan and the PRC.

CG training

- The Group entered into a co-operation agreement with Shanghai Xin Chang Ning Group Corporation Limited* for provision of CG training in Shanghai in February 2003.
- The Group began recruitment of students for CG training courses in Shenzhen and Shanghai respectively in the second quarter of 2003.

Management discussion and analysis

Capital structure

As at the beginning of the period under review, the Company's issued share capital consisted of 40,000,000 ordinary shares of HK\$0.01 each. The Company's share capital increased by 3,247,992 shares as a result of the subscriptions of 945,311 and 2,302,681 new shares by the two pre-listing investors, namely CITIC International Assets Management Limited (“CITIC”) and Overseas Chinese Town (Hong Kong) Co. Limited (“OCT”), representing approximately 2.19% and 5.32% respectively of the then issued share capital of the Company (the “Pre-Listing Investors”). The Company then underwent a capitalisation issue of 670,452,008 shares and issue of 66,300,000 new shares by way of placing and public offer, representing approximately 8.50% of the enlarged share capital of the Company. Together with the existing shareholders of the Company who are considered public under the GEM Listing Rules, the Company has attained a public float of approximately 27.7%. Upon listing, the capital base of the Company expanded to 780,000,000 ordinary shares of HK\$0.01 each, and the shareholdings of CITIC and OCT were diluted to 2.00% and 4.87% respectively.

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STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

Liquidity and financial resources

As a result of the issue of shares to the Pre-Listing Investors as noted above, net cash proceeds amounted to approximately HK\$38,693,000 were added to the Group's cash balance.

The aggregate outstanding borrowings of the Group as at 30th June, 2003 were approximately HK\$77,839,000, which included loans from the Company's shareholders of approximately HK\$20,622,000, other loans of approximately HK\$8,500,000, advances from Directors of approximately HK\$817,000, advances from Global Digital Creations Limited (a related company of the Group) of approximately HK\$5,781,000, long-term bank loans of approximately HK\$28,286,000 and obligations under finance leases of approximately HK\$13,833,000. Subsequent to 30th June, 2003, the Group made repayments of shareholders' loans of approximately HK\$7,900,000, other loans of approximately HK\$8,500,000 and amounts due to Global Digital Creations Limited of approximately HK\$5,781,000.

The consolidated cash position of the Group as at 30th June, 2003 was approximately HK\$32,735,000. When compared with the consolidated cash position as at 30th June, 2002 of HK\$8,089,000, this represented an increase of about 305%. Further, the Company had received total net proceeds of approximately HK\$53,300,000 from the listing.

Substantial improvements in net current assets and current ratio were also noted. As at 30th June, 2003, the net current assets was approximately HK\$52,346,000 (31st December, 2002: HK\$10,988,000), representing an increase of about 376%, whilst the current ratio was 2.05 (31st December, 2002: 1.26).

Charge on assets

As at 30th June, 2003, a bank deposit of approximately HK\$3,120,000 (31st December, 2002: nil) was pledged with a bank to secure an overdraft facility.

Material acquisition, disposals and significant investment

During the six months ended 30th June, 2003, the Group had no material acquisitions, disposals and investment. Other than those disclosed in note 17(ii) to the unaudited condensed accounts, the Group has at present no plan for material investments and

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

acquisition of capital assets. In any event, for achieving the business objectives of the Company, the Directors may from time to time pursue opportunities to develop the Group's businesses through acquisition, strategic alliances, joint ventures and/or co-operative arrangements.

Gearing ratio

As at 30th June, 2003, the Group had total debts of approximately HK\$77,839,000 and shareholder's funds of approximately HK\$29,359,000. Its gearing ratio (ratio of total debts to equity) improved significantly from 1,233% as at 31st December, 2002 to 265% as at 30th June, 2003.

Foreign exchange exposure

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

Staff

As at 30th June, 2003, the Group employed 245 full time staff (2002: 249), at market remuneration with employee benefits such as comprehensive medical coverage, insurance plan and retirement benefit schemes under the Mandatory Provident Fund. Staff costs for the six months ended 30th June, 2003 were approximately HK\$12,566,000 (2002: HK\$10,352,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to the disruption of its business operations. The Directors consider the Group has good working relationship with its employees. The Group recognises the importance of training for its staff. Apart from on-the-job training, the Group also regularly provides internal and external training for its staff to enhance their technical knowledge.

Contingent liabilities

The Group had no material contingent liabilities as at 30th June, 2003 (31st December, 2002: Nil).

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

Business direction

As set out above, the Company has, in the six months ended 30th June, 2003, undertaken various initiatives to enhance sales, marketing, training and production and streamline research and development, whilst improving the Group's finances by way of retirement of loans and a convertible note.

Although outcome of some of these initiatives have only been recently implemented, we are confident that encouraging results will flow from them in the near future.

Outlook

Riding on the back of huge advances in computer animation technology over recent years, the global CG industry is experiencing a spate of rapid growth. As such, the Company remains cautiously optimistic, notwithstanding challenging recent global economy.

As the Group targets production completion of the film "*Thru the Moebius Strip*" and its pre-sale to markets outside the US by 31st December, 2003, no revenue has been generated by the Group from CG creation and production as at 30th June, 2003. As the Group owns the intellectual property of the film "*Thru the Moebius Strip*", its production and release will enable the Group to develop many potential revenue streams, including sale of DVDs/videos relating to the film, merchandising and computer gaming. As set out in the Prospectus, the Group targets to issue beta versions of computer gaming on the film "*Thru the Moebius Strip*" once it is released, upon which further revenue is expected to be generated.

The development of other projects, including a sequel to the film "*Thru the Moebius Strip*", continues. The final format of the sequel will be decided upon once it is possible to gauge the initial success of the present film.



STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

The Group will continue sale and deliveries of its DSR™ digital film servers to India, and to further expand the sale of its digital cinema equipment in the US, PRC, Singapore and Hong Kong.

On behalf of the Board

Raymond Dennis Neoh

Executive Director and Chief Executive Officer

Hong Kong, 14th August, 2003

OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (2002: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30th June, 2003, so far as is known to the Directors, the beneficial interests (including interests and short positions in the ordinary shares of the Company ("Shares"), underlying Shares and debentures) of the Directors in the shares or securities of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance Cap. 571 ("SFO")) which required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that Section, or required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

| Name of Director | No. of Shares | Nature of Interests | Approximate percentage of interest (%) |
|----------------------|---------------|---------------------|--|
| Anthony Francis Neoh | 7,573,048 | Personal (note 1) | 17.51% |
| Raymond Dennis Neoh | 16,672,486 | Corporate (note 2) | 38.55% |
| David Deng Wei | 1,247,028 | Corporate (note 3) | 2.88% |
| Richard Yin Yingneng | 504,870 | Personal (note 4) | 1.17% |

Notes:

1. The 7,573,048 Shares were held by Anthony Francis Neoh directly.

OTHER INFORMATION

2. The 12,975,156 of these Shares were held by Upflow Holdings Limited, a company incorporated in the BVI with limited liability and wholly owned by Raymond Dennis Neoh. The balance of the 3,697,330 Shares were held by Forward Strategic Investments Limited, a wholly owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.
3. The 1,247,028 Shares were held by Bright Oceans Corporation (HK) Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by David Deng Wei.
4. The 504,870 Shares were held by Richard Yin Yingneng directly.

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

| Name of Director | Number and description of equity derivatives | Number of underlying Shares | Nature of interests | Approximate percentage of interest (%) |
|----------------------|---|-----------------------------|---------------------|--|
| Anthony Francis Neoh | 1,951,322 options granted under the Scheme (note 5) | 1,951,322 | Personal (note 6) | 4.51% |
| Raymond Dennis Neoh | 291,983 options granted under the Scheme | 291,983 | Personal (note 7) | 0.68% |
| Richard Yin Yingneng | 326,482 options granted under the Scheme | 326,482 | Personal (note 8) | 0.75% |

Notes:

5. On 20th March, 2003, the shareholders of Forward Strategic Investments Limited, have by written resolution, adopted a share option scheme ("Scheme") also dated 20th March, 2003, wherein its board is entitled to grant options to grantees such that they can purchase Shares from Forward Strategic Investments Limited pursuant to the terms of the Scheme.
6. Anthony Francis Neoh has been granted options under the Scheme, which when exercised by him, entitle him to subscribe for a total of 1,951,322 Shares.
7. Raymond Dennis Neoh has been granted options under the Scheme, which when exercised by him, entitle him to subscribe for a total of 291,983 Shares.
8. Richard Yin Yingneng has been granted options under the Scheme, which when exercised by him, entitle him to subscribe for a total of 326,482 Shares.

OTHER INFORMATION

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

| Name of Director | Number and description of equity derivatives | Number of underlying Shares | Nature of interests | Approximate percentage of interest (%) |
|---------------------|--|-----------------------------|---------------------|--|
| Raymond Dennis Neoh | (note 9) | 3,697,330 | Corporate (note 9) | 8.55% |

Note:

- Pursuant to the terms of the Scheme, the grantees may purchase the 3,697,330 Shares according to its terms and conditions. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

Save as disclosed above, as at 30th June, 2003, none of the Directors and the chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

SHARE OPTIONS

Post-IPO share option scheme

The share option scheme of the Company ("Post-IPO Scheme") was approved and adopted on 18th July, 2003. The principal purpose of the Post-IPO Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group.

As at 30th June, 2003, no option has been granted or agreed to be granted under the Post-IPO Scheme.

OTHER INFORMATION

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, so far as is known to the Directors, the following substantial shareholders, not being a Director or chief executive of the Company, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO:

Long positions in Shares

| Name | No. of Shares | Nature of interests | Approximate percentage of interest (%) |
|--|---------------|-----------------------|--|
| Forward Strategic Investments Limited | 3,697,330 | Corporate (note 1) | 8.55% |
| Global Digital Creations Limited | 3,697,330 | Corporate (note 1) | 8.55% |
| Upflow Holdings Limited | 16,672,486 | Corporate (notes 1&2) | 38.55% |
| SW Kingsway Capital Holdings Limited | 2,524,350 | Corporate (note 3) | 5.84% |
| Billion On Development Limited | 2,524,350 | Corporate (note 3) | 5.84% |
| Festival Developments Limited | 2,524,350 | Corporate (note 3) | 5.84% |
| Kingsway China Holdings Limited | 2,524,350 | Corporate (note 3) | 5.84% |
| Cyber Prime Developments Limited | 2,524,350 | Corporate (note 3) | 5.84% |
| Sotas Limited | 3,365,800 | Corporate (note 4) | 7.78% |
| Morningside CyberVentures Holdings Limited | 3,365,800 | Corporate (note 4) | 7.78% |
| Verrall Limited | 3,365,800 | Corporate (note 4) | 7.78% |
| Chan Tan Ching Fen | 3,365,800 | Corporate (note 4) | 7.78% |

OTHER INFORMATION

Notes:

1. The 3,697,330 Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited which is wholly owned by Raymond Dennis Neoh.
2. The 12,975,156 Shares were held by Upflow Holdings Limited, which is wholly owned by Raymond Dennis Neoh.
3. The 2,524,350 Shares were held by Cyber Prime Developments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway Capital Holdings Limited.
4. The 3,365,800 Shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly-owned subsidiary of Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen, who was taken to be interested in the Shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the Shares on GEM.

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

| Name | Number and description of equity derivatives | Number of underlying Shares | Nature of interests | Approximate percentage of interest (%) |
|---------------------------------------|--|-----------------------------|---------------------|--|
| Forward Strategic Investments Limited | (note 5) | 3,697,330 | Corporate (note 5) | 8.55% |
| Global Digital Creations Limited | (note 5) | 3,697,330 | Corporate (note 5) | 8.55% |
| Upflow Holdings Limited | (note 5) | 3,697,330 | Corporate (note 5) | 8.55% |

Notes:

5. Pursuant to the terms of the Scheme, the grantees may purchase the 3,697,330 Shares according to its terms and conditions. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings

OTHER INFORMATION

Limited, which is wholly owned by Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

Other interests discloseable under the SFO

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

SPONSORS’ INTERESTS

Pursuant to the agreement entered into between the Company and Asia Investment Capital Limited (“AICL”), the sponsor of the Company, AICL will act as the Company’s continuing sponsor with effect from 4th August, 2003 to 31st December, 2005.

As at 30th June, 2003, neither AICL nor its directors, employee or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) have any interests in any class of securities of the Company or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.

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

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at 30th June, 2003, save for an advance of RMB8,450,000 (equivalent approximately to HK\$7,967,000) made by a subsidiary of the Group on 21st March, 2003 to a related company of a shareholder and which was subsequently fully repaid to the subsidiary in July 2003, the Directors are not aware that (i) the Group has advanced any money to any entity which exceeded 25% of the Group’s audited net tangible assets; (ii) the Group has provided any financial assistance and guarantees to affiliated companies which exceeded 25% of the Group’s audited net tangible assets; (iii) the controlling shareholder of the Company has made any pledge over its shares to secure debts, guarantees or support of other obligation of the Group; (iv) the

OTHER INFORMATION

Group has entered into any loan agreements imposing specific performance obligations on any controlling shareholder and breach of such obligation will cause a default in respect of loans that are significant to the operations of the Company; and (v) the Group has breached the terms of any loan agreements that are significant to the operations of the Group such that the lender may demand immediate repayment and where the lender has not issued a waiver in respect of the breach. Hence, the Directors are not aware of any circumstances which give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Company has an audit committee established with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the three independent non-executive Directors, Mr. Gordon Kwong Che Keung (Committee Chairman), Professor Japhet Sebastian Law and Mr. Stephen Scharf. The primary duties of the audit committee are, inter alia, to review and supervise the financial reporting process and internal control system of the Group. The Group's interim results for the six months ended 30th June, 2003 have been reviewed by the audit committee, which is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures have been made.

COMPETING INTEREST

Save as the competing interest as disclosed in the Prospectus, none of the directors, management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period under review.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and the six months ended 30th June, 2003

| | Note | Unaudited | | | |
|--------------------------|------|----------------------------------|------------------|--------------------------------|------------------|
| | | Three months ended 30th June, | | Six months ended 30th June, | |
| | | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Turnover | 3 | 2,701 | 465 | 4,159 | 1,029 |
| Cost of sales | | (1,664) | (833) | (2,723) | (1,544) |
| Gross profit/(loss) | | 1,037 | (368) | 1,436 | (515) |
| Other revenue | 3 | — | 2 | — | 5 |
| Other operating income | | 28 | 4 | 658 | — |
| Administrative expenses | | (4,616) | (2,564) | (9,128) | (4,497) |
| Other operating expenses | | (764) | (696) | (1,410) | (1,182) |
| Operating loss | 4 | (4,315) | (3,622) | (8,444) | (6,189) |
| Finance costs | | (1,756) | (204) | (3,220) | (283) |
| Loss for the period | | (6,071) | (3,826) | (11,664) | (6,472) |
| Loss per share | 7 | | | | |
| Basic | | (0.92 cents) | (0.58 cents) | (1.76 cents) | (0.98 cents) |
| Diluted | | N/A | N/A | N/A | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2003

| | Note | Unaudited 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|---|------|---|------------------------------------|
| Non-current assets | | | |
| Fixed assets | 8 | 25,446 | 28,160 |
| Current assets | | | |
| Inventories, at cost | | 333 | — |
| Production work in progress | 9 | 55,961 | 43,564 |
| Trade receivables | 10 | 1,295 | 69 |
| Prepayments, deposits and other receivables | | 11,964 | 2,047 |
| Bank balances and cash | | | |
| — Pledged | | 3,120 | — |
| — Unpledged | | 29,615 | 8,089 |
| | | 102,288 | 53,769 |
| Current liabilities | | | |
| Training fees received in advance | | — | 1,122 |
| Advances from directors | | 817 | 598 |
| Advances from an officer | | — | 3,300 |
| Advances from a shareholder | | — | 12 |
| Current portion of long-term liabilities | 15 | 6,408 | 12,838 |
| Other payables and accrued charges | | 20,536 | 8,441 |
| Amounts due to Global Digital Creations Limited | | 5,781 | 70 |
| Loans from shareholders | 11 | 7,900 | 7,900 |
| Other loans | 12 | 8,500 | 8,500 |
| | | 49,942 | 42,781 |
| Net current assets | | 52,346 | 10,988 |
| Total assets less current liabilities | | 77,792 | 39,148 |
| Financed by: | | | |
| Share capital | 13 | 432 | 400 |
| Reserves | 14 | 28,927 | 5,027 |
| Shareholders' funds | | 29,359 | 5,427 |
| Non-current liabilities | | | |
| Loans from a shareholder | 11 | 12,722 | 11,746 |
| Long-term liabilities | 15 | 35,711 | 21,975 |
| | | 77,792 | 39,148 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

| | Note | Unaudited Six months ended 30th June, | |
|-------------------------------------|--------|---|------------------|
| | | 2003 HK\$'000 | 2002 HK\$'000 |
| Total equity at beginning of period | | 5,427 | 27,278 |
| Loss for the period | 14 | (11,664) | (6,472) |
| Issue of shares | 13, 14 | 40,200 | — |
| Share issuance costs | 14 | (4,604) | — |
| Total equity at end of period | | 29,359 | 20,806 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

| | Unaudited Six months ended 30th June, | |
|--|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Net cash used in operating activities | (25,666) | (15,863) |
| Net cash used in investing activities | (4,166) | (3,190) |
| Net cash from financing activities | 51,358 | 18,912 |
| Net increase/(decrease) in cash and cash equivalents | 21,526 | (141) |
| Cash and cash equivalents at 1st January, | 8,089 | 1,068 |
| Cash and cash equivalents at 30th June, | 29,615 | 927 |
| Analysis of balances of cash and cash equivalents: | | |
| Bank balances and cash | 29,615 | 927 |

NOTES TO CONDENSED ACCOUNTS

1. Group reorganisation

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

2. Basis of preparation of the unaudited condensed accounts

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

These condensed accounts should be read in conjunction with the accountants’ report set out in the Prospectus.

The accounting policies and methods of computation used in the preparation of these unaudited condensed accounts are consistent with those used in the financial information as included in the accountants’ report set out in the Prospectus except that the Group has adopted certain new accounting policies following its commencement of sale of equipment under digital content distribution and exhibitions business segment during the six months ended 30th June, 2003. Details of these new accounting policies are set out below:

(a) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(b) *Revenue recognition*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

3. Turnover, revenue and segment information

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

| | Three months ended 30th June, | | Six months ended 30th June, | |
|---|----------------------------------|------------------|--------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Turnover | | | | |
| Training fees | 517 | 393 | 1,200 | 957 |
| Sales of goods | 2,108 | — | 2,810 | — |
| Box office receipts from distribution of digital motion pictures | 38 | 41 | 73 | 41 |
| Rental income from equipment leasing | 19 | 19 | 38 | 19 |
| Franchise fee from digital cinema for use of equipment | 19 | 12 | 38 | 12 |
| | 2,701 | 465 | 4,159 | 1,029 |
| Other revenue | | | | |
| Interest income | — | 2 | — | 5 |
| Total revenues | 2,701 | 467 | 4,159 | 1,034 |

3. Turnover, revenue and segment information (Continued)

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

| Six months ended 30th June, 2003 | | | | | |
|----------------------------------|---|--|------------------------------------|-----------------------|-------------------|
| | CG creation and production HK\$'000 | Digital content distribution and exhibitions HK\$'000 | CG training courses HK\$'000 | Corporate HK\$'000 | Total HK\$'000 |
| Turnover | — | 2,959 | 1,200 | — | 4,159 |
| Segment results | (1,682) | (3,879) | (516) | | (6,077) |
| Unallocated costs | | | | | (2,367) |
| Operating loss | | | | | (8,444) |
| Finance costs | | | | | (3,220) |
| Loss for the period | | | | | (11,664) |

| Six months ended 30th June, 2002 | | | | | |
|----------------------------------|---|--|------------------------------------|-----------------------|-------------------|
| | CG creation and production HK\$'000 | Digital content distribution and exhibitions HK\$'000 | CG training courses HK\$'000 | Corporate HK\$'000 | Total HK\$'000 |
| Turnover | — | 72 | 957 | — | 1,029 |
| Segment results | (1,276) | (3,355) | (617) | | (5,248) |
| Other revenue | | | | | 5 |
| Unallocated costs | | | | | (946) |
| Operating loss | | | | | (6,189) |
| Finance costs | | | | | (283) |
| Loss for the period | | | | | (6,472) |

4. Operating loss

Operating loss is stated after crediting and charging the following:

| | Three months ended 30th June, | | Six months ended 30th June, | |
|--|----------------------------------|------------------|--------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Crediting | | | | |
| Exchange gain, net | — | 4 | — | — |
| Gain on disposal of fixed assets | 28 | — | 658 | — |
| Charging | | | | |
| Cost of inventories sold | 763 | — | 977 | — |
| Depreciation (note a) | 909 | 639 | 1,800 | 1,181 |
| Exchange loss, net | 21 | — | 40 | 1 |
| Operating lease rentals on land and building (note b) | 288 | 245 | 584 | 451 |
| Research and development costs (note c) | 743 | 696 | 1,370 | 1,181 |
| Staff costs (note c) | 1,635 | 1,015 | 3,531 | 2,047 |

Notes:

(a) Depreciation

| | Three months ended 30th June, | | Six months ended 30th June, | |
|--|----------------------------------|------------------|--------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Depreciation | | | | |
| — owned assets | 751 | 984 | 1,441 | 1,801 |
| — leased assets | 1,473 | 562 | 2,977 | 1,186 |
| | 2,224 | 1,546 | 4,418 | 2,987 |
| Less: amounts included in production work in progress | (1,315) | (907) | (2,618) | (1,806) |
| | 909 | 639 | 1,800 | 1,181 |

4. Operating loss (Continued)

(b) Operating lease rentals on land and buildings

| | Three months ended 30th June, | | Six months ended 30th June, | |
|---|----------------------------------|----------|--------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Operating lease rentals on land and buildings | 664 | 579 | 1,337 | 1,079 |
| Less: amounts included in production work in progress | (376) | (334) | (753) | (628) |
| | 288 | 245 | 584 | 451 |

(c) Staff costs (including directors' emoluments)

| | Three months ended 30th June, | | Six months ended 30th June, | |
|--|----------------------------------|----------|--------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Staff costs (including directors' emoluments) | | | | |
| — wages and salaries | 5,590 | 4,612 | 11,315 | 9,480 |
| — other allowances and benefits | 369 | 282 | 755 | 565 |
| — retirement benefit costs | 249 | 149 | 496 | 307 |
| | 6,208 | 5,043 | 12,566 | 10,352 |
| Less: amounts included in production work in progress | (3,830) | (3,332) | (7,665) | (7,124) |
| Less: amounts included in research and development costs | (743) | (696) | (1,370) | (1,181) |
| | 1,635 | 1,015 | 3,531 | 2,047 |

5. Taxation

No Hong Kong profits tax was provided for the period as the Group had no estimated assessable profits arising in or deriving from Hong Kong.

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

The reconciliation between the Group's loss for the period and the amount which is calculated based on the tax rate of 17.5% (2002: 16%) in Hong Kong is as follows:

| | Three months ended 30th June, | | Six months ended 30th June, | |
|---|----------------------------------|------------------|--------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Loss for the period | (6,071) | (3,826) | (11,664) | (6,472) |
| Tax calculated at the tax rate of 17.5% (2002: 16%) | (1,062) | (612) | (2,041) | (1,036) |
| Expenses not deductible for taxation purposes | 1,090 | 454 | 1,944 | 752 |
| Income not subject to taxation | (370) | — | (492) | — |
| Deferred tax benefits arising from tax losses in a subsidiary not recognised | 81 | — | 111 | — |
| Loss of a subsidiary in China Mainland under tax holiday | 261 | 158 | 478 | 284 |
| Taxation | — | — | — | — |

6. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (2002: Nil).

7. Loss per share

Basic loss per share for the three months and the six months ended 30th June, 2003 are calculated based on the loss for the period of HK\$6,071,000 and HK\$11,664,000 respectively and on an aggregate of 663,462,647 shares and 661,790,619 shares respectively, comprising (i) the weighted average number of 40,203,765 shares and 40,102,446 shares respectively in issue and capitalisation issue for the Pre-Listing Investors of 3,158,871 shares and 1,588,162 shares respectively deemed to be in issue during the period; and (ii) 620,100,011 shares issued pursuant to the capitalisation issue for the then shareholders upon completion of the Reorganisation, which were deemed to have been in issue since 1st January, 2002.

The comparative basic loss per share for the three months and the six months ended 30th June, 2002 are calculated based on the loss for the period of HK\$3,826,000 and HK\$6,472,000 respectively and on an aggregate of 660,100,011 shares, comprising 40,000,000 shares deemed to be in issue during the period, and 620,100,011 shares issued pursuant to the capitalisation issue for the then shareholders upon completion of the Reorganisation, which were deemed to have been in issue since 1st January, 2002.

Diluted loss per share for the three months ended 30th June, 2003 is not presented because there was no dilutive potential ordinary shares in existence during the period (three months and six months ended 30th June, 2002: Not applicable). No diluted loss per share is presented for the six months ended 30th June, 2003 as the convertible note was anti-dilutive.

8. Fixed assets

| | HK\$'000 |
|--|----------|
| Net book value as at 1st January, 2003 | 28,160 |
| Additions | 2,022 |
| Disposals | (318) |
| Depreciation | (4,418) |
| Net book value as at 30th June, 2003 | 25,446 |

9. Production work in progress

| | 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|------------------------------------|--------------------------------|------------------------------------|
| Production costs incurred, at cost | 55,961 | 43,564 |

Production work in progress represents production costs incurred for the film titled "*Thru the Moebius Strip*", a movie project currently under production by the Group and is stated at cost less provision for impairment losses. Cost comprises direct production costs, consultancy fees, payment for intellectual property rights and appropriate proportion of production overheads which are allocated on the basis of floor areas occupied by the production unit, proportion of time of production facilities utilised or other systematic allocation methods where the Directors consider appropriate. The Directors are of the opinion that the production costs incurred as at 30th June, 2003 are fully recoverable.

10. Trade receivables and payables

Aging analysis of trade receivables is as follows:

| | 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|---------------------|--------------------------------|------------------------------------|
| Within three months | 1,295 | 38 |
| Three to six months | — | 19 |
| Over six months | — | 12 |
| | 1,295 | 69 |

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

As at 30th June, 2003, the Group had no payable of trade nature (31st December, 2002: Nil).

11. Loans from shareholders

| | Note | 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|--------------------------------|------|--------------------------------|------------------------------------|
| Repayable within one year: | | | |
| Sotas Limited | (a) | 7,600 | 7,600 |
| Richard Yin Yingneng | (a) | 300 | 300 |
| | | 7,900 | 7,900 |
| Repayable later than one year: | | | |
| Anthony Francis Neoh | (b) | 12,722 | 11,746 |
| | | 20,622 | 19,646 |

Notes:

- (a) The loans from shareholders except for the loans from Anthony Francis Neoh were repaid in full subsequent to 30th June, 2003.
- (b) The loans from Anthony Francis Neoh are unsecured, bear interest at best lending rate from time to time plus 3% per annum and are not repayable within twelve months from 30th June, 2003.

12. Other loans

| | 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|------------------------------|--------------------------------|------------------------------------|
| Kingsway SW Finance Limited | 1,700 | 1,700 |
| William Ka Chung Lam | 1,000 | 1,000 |
| E-Talent Investments Limited | 5,800 | 5,800 |
| | 8,500 | 8,500 |

The other loans were repaid in full subsequent to 30th June, 2003.

13. Share capital

| | Note | Ordinary shares of HK\$0.01 each Number of shares | HK\$'000 |
|---|------|--|----------|
| Authorised: | | | |
| On incorporation at 9th October, 2002 | (a) | 10,000,000 | 100 |
| Increase in authorised ordinary share capital | (c) | 1,190,000,000 | 11,900 |
| At 30th June, 2003 and 31st December, 2002 | | 1,200,000,000 | 12,000 |
| Issued and fully paid: | | | |
| Shares allotted on 7th November, 2002 | (b) | 10,000,000 | 100 |
| Shares allotted on 31st December, 2002 for acquisition of subsidiaries pursuant to the Reorganisation | (d) | 30,000,000 | 300 |
| At 31st December, 2002 | | 40,000,000 | 400 |
| At 1st January, 2003 | | 40,000,000 | 400 |
| Shares allotted to pre-listing investors | (e) | 3,247,992 | 32 |
| At 30th June, 2003 | | 43,247,992 | 432 |

Notes:

- (a) The Company was incorporated in Bermuda on 9th October, 2002 with an authorised capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each.
- (b) On 7th November, 2002, 10,000,000 shares were issued and allotted to Upflow Holdings Limited as nil paid.
- (c) By a written resolution passed by the shareholders of the Company on 31st December, 2002, the authorised ordinary share capital of the Company was increased from HK\$100,000 to HK\$12,000,000 by the creation of 1,190,000,000 shares of HK\$0.01 each.
- (d) On 31st December, 2002, the shareholders of GDC (BVI) Limited (now the shareholders of the Company) transferred the entire share capital of GDC (BVI) Limited to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 30,000,000 new shares of HK\$0.01 each; and (ii) credited as fully paid at par the 10,000,000 nil paid shares of HK\$0.01 each held by Upflow Holdings Limited.

13. Share capital (Continued)

- (e) On 25th and 26th June, 2003, the Company allotted and issue 945,311 and 2,302,681 shares of the Company of HK\$0.01 each to two pre-listing investors at cash considerations of HK\$11,700,000 and HK\$28,500,000 respectively. The excess of the aggregated cash consideration over the nominal value of shares of HK\$40,168,000 was credited to the share premium account of the Company (note 14).
- (f) At a special general meeting of the Company held on 18th July, 2003, the share option scheme was approved and adopted. No share option was granted under the share option scheme.

14. Reserves

| | Contributed surplus (note a) HK\$'000 | Share premium (note 13(e)) HK\$'000 | Share issuance costs (note b) HK\$'000 | Statutory reserve (note c) HK\$'000 | Exchange reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|----------------------|---|---|--|---|------------------------------|--------------------------------|-------------------|
| At 1st January, 2002 | 40,271 | — | — | — | 5 | (13,398) | 26,878 |
| Loss for the period | — | — | — | — | — | (6,472) | (6,472) |
| At 30th June, 2002 | 40,271 | — | — | — | 5 | (19,870) | 20,406 |
| At 1st January, 2003 | 40,271 | — | (4,465) | 415 | 48 | (31,242) | 5,027 |
| Issue of shares | — | 40,168 | — | — | — | — | 40,168 |
| Share issuance costs | — | — | (4,604) | — | — | — | (4,604) |
| Loss for the period | — | — | — | — | — | (11,664) | (11,664) |
| At 30th June, 2003 | 40,271 | 40,168 | (9,069) | 415 | 48 | (42,906) | 28,927 |

- (a) The difference between the nominal value of the shares of GDC (BVI) Limited and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation is accounted for as contributed surplus of the Group.
- (b) The share issuance costs would be written off against the share premium account upon the listing of the Shares on GEM.

14. Reserves (Continued)

- (c) As stipulated by the rules and regulations in China Mainland, foreign investment enterprise are required to appropriate part of their after-tax profit (after offsetting prior year's losses) to certain statutory reserves. 環球數碼媒體科技研究(深圳)有限公司 ("IDMT"), as a wholly foreign owned enterprise established in the PRC, is required to appropriate 10% of its after-tax profit (after offsetting prior year's losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital thereafter any further appropriation is optional and is determinable by the Company's board of directors. The statutory reserve as at 31st December, 2002 and 30th June, 2003 represents general reserve fund of IDMT of approximately HK\$415,000, which can only be used, upon approval by the relevant authority, to offset prior year losses or to increase capital.

15. Long-term liabilities

| | 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|---|--------------------------------|------------------------------------|
| Bank loans, secured | 28,286 | 14,143 |
| Convertible note | — | 7,800 |
| Obligations under finance leases | 13,833 | 12,870 |
| | 42,119 | 34,813 |
| Current portion included in current liabilities | (6,408) | (12,838) |
| | 35,711 | 21,975 |

At 30th June, 2003, the Group's bank loans (excluding finance lease liabilities) were all repayable in the second year.

16. Deferred taxation

Deferred income tax assets are recognised for tax loss carry forwards and other deductible temporary differences to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 30th June, 2003, the Group has unrecognised tax losses of HK\$948,000 (31st December, 2002: HK\$314,000) to carry forward against future taxable income; these tax losses will have no expiry date. In addition, the Group has unrecognised temporary difference arising from unrealised profit resulting from intra-group transactions of HK\$11,794,000 as at 30th June, 2003 (31st December, 2002: HK\$11,794,000), the Group did not recognise the deferred asset for such deductible temporary difference as the utilisation of the temporary difference is uncertain.

17. Capital commitments

- (i) At 30th June, 2003, the Group had the following capital commitments relating to leasehold improvements:

| | 30th June, 2003 HK\$'000 | 31st December, 2002 HK\$'000 |
|-----------------------------------|--------------------------------|------------------------------------|
| Authorised but not contracted for | — | — |
| Contracted but not provided for | 367 | 247 |
| | 367 | 247 |

- (ii) On 16th December, 2002, the Group entered into an agreement with Adlabs, a third party, for the proposed acquisition of 8% equity interest in Adlabs D2C Applications Pvt Ltd, a wholly owned subsidiary of Adlabs, at a consideration of US\$1,000,000 (equivalent to approximately HK\$7,800,000) (the "Acquisition"). The Acquisition is conditional upon the successful listing of the Company's shares on the GEM and fulfilment of certain conditions as stipulated in the agreement.

18. Related party transactions

On 15th January, 2000, GDC Entertainment Limited, a wholly owned subsidiary of the Company entered into an assignment with Moebius Strip Limited (formerly known as Butterfly Dance Holdings Limited), in which Raymond Dennis Neoh, a Director, is one of the shareholders, for the assignment of the copyright and all other rights in and to *Thru the Moebius Strip*. Pursuant to the assignment (which was supplemented by a supplemental agreement dated 2nd May, 2003), the assignment consideration consists of (i) US\$60,000; (ii) deferred net profit from the Group's film production of *Thru the Moebius Strip* up to a maximum of US\$240,000 should the Group's film production generates a net profit as defined in the assignment; and (iii) 3% of the net profit from the Group's production of *Thru the Moebius Strip* in excess of US\$240,000 from time to time. As at 30th June, 2003 and 31st December, 2002, the intellectual property rights as referred to in (i) above of approximately HK\$467,000 (equivalent to US\$60,000) was paid and is included in production work in progress. The equity interest held by Raymond Dennis Neoh was sold to a third party subsequent to 30th June, 2003.

19. Subsequent events

- (a) The Company allotted and issued 66,300,000 shares of HK\$0.01 each at an issue price of HK\$1 per share by way of placing and public offer for a total cash consideration of HK\$66,300,000. The shares of the Company were listed on GEM on 4th August, 2003.
- (b) Pursuant to resolutions of the shareholders passed at the Company's special general meeting held on 18th July, 2003, a total of 670,452,008 shares were allotted as fully paid at par to shareholders of register of the Company in proportion to their respective shareholdings at the close of business on 18th July, 2003 by way of capitalisation issue of sum of HK\$6,704,520 standing to the credit of share premium account of the Company.