

third
quarterly
report
2004



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



* For identification purpose only

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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.

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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.

CONTENTS

Company Information	2
Summary	4
Financial Overview	5
Business Review	6
Other Information	10
Unaudited Consolidated Profit and Loss Account	19
Notes to Unaudited Consolidated Profit and Loss Account	20

COMPANY INFORMATION

Executive Director

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

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. Gordon Kwong Che Keung
Professor Japhet Sebastian Law
Dato' Mohd Ibrahim bin Mohd Zain
(resigned on 10 June 2004)
Mr. Paul Kwan Yuen Chiu
(appointed on 25 September 2004)

Chief Technology Officer

Dr. Chong Man Nang

Chief Financial Officer & Qualified Accountant

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

Company Secretary

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

Audit Committee

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

Remuneration Committee

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

Disclosure Policy Committee

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

Authorised Representatives

Mr. Raymond Dennis Neoh
Ms. Amelia Mak Lai Yu

Bermuda Resident Representative

Mr. John C. R. Collis

Bermuda Deputy Resident Representative

Mr. Anthony D. Whaley

Website Address

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

Stock Code

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Bloomberg: GDC GR EQUITY

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Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Auditors

PricewaterhouseCoopers

Sponsor

Goldbond Capital (Asia) Limited

Legal Advisers

As to Hong Kong laws

Gallant Y. T. Ho and Co

As to Bermuda laws

Conyers Dill & Pearman

Principal Bankers

Hang Seng Bank Limited

The Development Bank of Singapore Ltd.

Standard Chartered Bank (Hong Kong) Ltd.

Shenzhen Commercial Bank

Bank of China

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

Hong Kong Share Registrar and Transfer Office

Standard Registrars Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

SUMMARY

- The Group's turnover increased approximately 188% when compared with the same period in 2003 to HK\$17,187,000. Gross profit of approximately 20% was achieved. The accumulated net loss for the period ended 30 September 2004 was HK\$27,801,000, an increase of approximately 22% when compared with the same period in 2003. However, the net loss for the quarter under review was HK\$8,507,000 compared to HK\$11,097,000 for the same three month period last year. The Group expects the losses to narrow further as contribution from both digital cinema sales increases and as further income comes in from the computer graphics business.
- European DocuZone ("EDZ") announced that it had selected servers from GDC Technology and digital projectors from Panasonic for its European digital cinema network. During the press conference at the International Broadcast Convention ("IBC"), it was announced that over 180 independent cinemas across Europe would install customised GDC Technology DSR™ Servers alongside DLP™ projectors from Panasonic. The network planned to go live across Austria, Belgium, France, Germany, The Netherlands, Portugal, Spain, Slovakia and the UK.
- Marketing of *Thru the Moebius Strip* (the "Film") continues and has reached an active stage at the American Film Market now in progress. The Film has been relaunched with enhanced scenes and current reception has been good with the result that contractual discussions are now being held with distributors in major markets. The Group has dissolved the exclusive sales agency with Senator International Inc. and has embarked upon appointments of multiple sales agents for the international marketing of the Film. This strategy is beginning to show results and as at today, three additional markets for the amount of over US\$500,000, making total pre-sales to US\$1,000,000 has been achieved. Major markets are now under discussion and include the US and Chinese domestic markets, with the goal of a summer 2005 worldwide theatrical release to be followed by television premiers and DVD sales. There are now firm offers of distribution in both the US and China on the table, which the Group will finalise in the next month as more offers are coming in. Meanwhile, the Group has made further progress in the production of the 52-episode TV series *Panshel's World* and is in discussion with a large number of potential fee for services clients from the US, Canada and the UK. All of these potential clients have been attracted to the Group because of the quality of the work achieved in the Film.
- In addition, the Group is re-positioning its training business from a small in-house training school primarily designed to provide an in-house pool of animators, to a free standing training business for digital artists and related professionals. The multi-media market will be a burgeoning market in China and the need for a large pool of professionals will be great.
- As the Group continues to experience a net loss from operations, the Directors are considering various proposals to raise further funds either by way of new investors and/or disposal of assets to enable the Group to meet current commitments until the operations break even.

FINANCIAL OVERVIEW

Turnover of the Group for the nine months ended 30 September 2004 was approximately HK\$17,187,000 which, when compared with the turnover of HK\$5,973,000 for the nine months ended 30 September 2003, represented an increase of approximately 188%. Comparing the quarter ended 30 September 2004 with the quarter ended 30 September 2003, turnover of the Group had also increased from HK\$1,814,000 to HK\$1,896,000, representing an increase of approximately 5%.

The Group made a gross profit of HK\$3,393,000 for the nine months to 30 September 2004 (2003: HK\$1,525,000), representing a gross profit margin of approximately 20% (2003: 26%).

Administrative expenses for the nine months ended 30 September 2004 totaled HK\$25,338,000 (2003: HK\$17,994,000). The key components of the administrative expenses comprised personnel costs of approximately HK\$10,345,000 (2003: HK\$6,613,000); travel, accommodation and meeting costs of approximately HK\$3,095,000 (2003: HK\$1,900,000); legal and professional fees of approximately HK\$3,022,000 (2003: HK\$3,475,000); office rental and utilities of approximately HK\$1,923,000 (2003: HK\$1,646,000). The increase in the administrative expenses was attributable to the increase in the activities of the Group, as reflected in the higher headcount and the addition of the office in the Chang Ning District of Shanghai, the PRC.

Other operating expenses, which comprised mainly of costs for research and development for digital cinema technology, totaled approximately HK\$2,779,000 (2003: HK\$2,168,000).

Finance costs for the nine months ended 30 September 2004 totaled approximately HK\$3,592,000, which represented mainly the interest costs for the two bank loans denominated in Renminbi and finance costs for computer equipment leasing. (2003: HK\$4,198,000). The decrease in finance costs was due to the repayment of certain shareholders' loans during the second half of 2003, which bore interest at the rates between 8% and 15% per annum.

Overall, the Group incurred a net loss of approximately HK\$27,801,000 for the nine months to 30 September 2004, which represented an increase of approximately 22% over the net loss of approximately HK\$22,761,000 incurred in same period of last year.

On a quarter-to-quarter basis, the net loss for the three months to 30 September 2004 was approximately HK\$8,507,000, whilst the net loss for the three months to 30 September 2003 was approximately HK\$11,097,000.

As at 30 September 2004, the production of the film *Thru the Moebius Strip* (the "Film") had been completed, and the production of the 52-episode TV series *Panshel's World* (the "TV series") was in progress. The related production costs of these projects are carried forward in the balance sheet under production work-in-progress. This is in accordance with the Group's accounting policy on film costs and films under production. The total production costs incurred up to 30 September 2004 for the Film and the TV series amounted to approximately HK\$86,285,341 (30 September 2003: HK\$66,191,000) and HK\$14,070,120 (30 September 2003: Nil) respectively. Based on the Directors' view, no impairment losses are considered necessary, as the expected income from the exhibition of the Film and the TV series, and the expected income from related products are sufficient to cover the costs.

BUSINESS REVIEW

Computer Graphics ("CG") Creation and Production

The core business of the Group is in CG creation and production. The Group has positioned itself as a CG house capable of producing CG to international standards with CG artists principally trained in-house. This strategy is now paying dividends in the following respects:

- Its first and wholly financed CG film, *Thru the Moebius Strip*, has now received good reception in the American Film Market and notice from international distributors.
- The quality of the CG film has attracted many potential clients in the US, Canada and the United Kingdom, for CG fee for services work.
- The in-house training work has attracted nationwide attention with the result that the time has come to market training as a separate business in the PRC.

The Group's film *Thru the Moebius Strip* was recently relaunched at the American Film Market and received a good reception. As a result, contractual discussions have begun with distributors in major international markets, including the major European markets and the US domestic market. The Group has recently received a firm offer for a US domestic distribution from a small distributor offering a modest theatrical distribution to be followed by television premiers and DVD sales. The marketing team headed by the CEO in the US has reported that another larger offer may be received before the end of November 2004. In China, the Group has been discussing a theatrical distribution with major distributors and a firm offer has been received from one major distributor. The Group intends to appoint joint distributors in China and intends to complete the distribution arrangements for a summer 2005 release before the end of the year. Meanwhile, the CEO reported that the territories of Italy, Belgium and Holland have been added to the pre-sales list, bringing total pre-sales to slightly over US\$1,000,000. The Group has dissolved the exclusive agency relationship with Senator International Inc. and has embarked upon the use of multiple non-exclusive agents. This strategy is showing results. Major markets are now under discussion and include the US and Chinese markets. The Group hopes to complete all major markets contractual discussions by the end of the year and to aim for a summer 2005 worldwide theatrical release for the Film.

The quality of CG in the Film has attracted the attention of major potential clients for fee for services work, including well known directors, such as Rob Mintkoff, the director of *Lion King*. A large raft of fee for hire contracts are under discussion, some of which are likely to start production before the end of the year.

The Shanghai and Shenzhen Labour Bureau have made offers to the Group to expand their training activities using their premises at highly subsidized rates. As a result the Group is re-positioning itself to market its in-house training activities as an independent business and a manager has been designated for the purpose. Overtures are also being made by the Group to film schools in Australia and Canada to add new curriculum to the CG training, including sound design and post-production.

Whilst the Group has not so far derived much revenue from its core CG business, the Directors are confident that the Group will emerge from this long period of preparation as a sustainable CG house in the international market place.

Digital content distribution and exhibition

Despite intense competition from digital cinema equipment manufacturers, turnover of GDC Technology Ltd. ("GDC Technology"), an indirectly wholly-owned subsidiary of the Company, for the nine months ended 30 September 2004 was approximately HK\$13,636,000 which, when compared with the turnover for the nine months ended 30 September 2003 of HK\$4,281,000, represented an increase of approximately 218%.

Further to the installation of 10 digital cinemas in California, the US, during the second quarter of 2004, an additional 20 digital cinemas were installed in more than 11 states across the US in the third quarter of 2004. GDC Technology also expanded its market share in India by retrofitting five cinemas in South India.

As part of the marketing plan, GDC Technology participated at the International Broadcast Convention ("IBC"), an international exhibition held in Amsterdam, the Netherlands, in September 2004. GDC Technology launched a new technology – *synchronized playout* for its line of DSR™ Servers. Traditionally used in theatres only, the server range of products, namely SA1000 DSR™ Digital Film Server and SZ1000 DSR™ Z Server are the latest digital solution for three-dimensional (3D) films and multi-screen theatre presentation in museums and theme parks with the *synchronized playout* technology. Multiple DSR™ Servers can now be configured as synchronized servers for applications in complex theatrical presentations.

One of the latest additions to GDC Technology's growing list of customers now includes the Deng XiaoPing Memorial Museum in China. Along with the China Research Institute of Film Science and Technology (CRIFST), GDC Technology successfully installed a synchronized, multiple-server system in the museum. This enabled China's first 4k digital cinema theatre, comprising multiple projectors synchronized by multiple servers with single frame accuracy. The 4k (3,840 x 1,024) images, encoded using EN1000 - DSR™ Digital Film Agile Encoder, are projected with 3 DLP Cinema™ projectors (1.3k each) in synchronization on the large screen, using 3 DSR™ Servers.

During the third quarter of 2004, GDC Technology demonstrated its DSR™ Integrated Digital Film Projection System (world's first 3-Chip DLP™ projector with integrated data storage and server) to the China Film Group and received favourable comments.

DFP2000 DSR™ Integrated Digital Film Projection System provides a complete one-stop solution for digital screening in cinemas, auditoriums and lecture halls. Combining the high-quality 3-chip DLP™ projector, surround sound processor, theater automation and digital storage technologies into a single rack solution ensure the most cost-effective and reliable playback of film-quality images. DFP2000 system has a single large LCD touch-screen that allows the Graphics Unit Interface ("GUI") to access and manage both the projector and content play-list. Useful information such as the lamp-life status, total runtime and disk-storage capacity is accessible from the GUI. The integrated solution results in a lower ownership cost and seamlessly integrates with the existing theater audio system. DFP2000 Integrated System delivers 6000 ANSI lumens brightness and DLP™ quality images from a built-in, software-based server that performs decryption, decoding and subtitle rendering. GDC Technology has delivered and installed its first DSR™ Integrated Digital Film Projection System to Cathay Cineplexes in Singapore and expects to secure more sales in China in the coming quarters.

On 12 September 2004 at IBC, European DocuZone ("EDZ") announced that it had selected servers from GDC Technology and digital projectors from Panasonic for its European digital cinema network. During the press conference at IBC, it was announced that over 180 independent cinemas across Europe would install customised GDC Technology DSR™ Servers alongside DLP™ projectors from Panasonic. The network planned to go live across Austria, Belgium, France, Germany, the Netherlands, Portugal, Spain, Slovakia and the UK with an opening showcase on 12 and 13 November 2004. The headline documentary *Peace One Day* will open as a pan-European premiere followed by seven other European documentaries over the weekend.

On 10 September 2004, China Film Equipment Corporation, a subsidiary of the China Film Group signed contracts with GDC Technology for the order of 11 GDC Technology's 2k DSR™ Servers for the China Film Group's fourth round of digital cinema deployment comprising 11 2k digital cinema screens.

CG Training

The Group continues to recruit students in Shenzhen and Shanghai, the PRC, and has attained the maximum intake of 150 and 60 students, respectively for the new courses which started in the third quarter of 2004. The Group has been running part-time courses for a training scheme under the Shanghai Labour Department. The Group has also been approached by a number of educational institutions proposing co-running of CG training courses in Shanghai and the Jiangsu province, the PRC. The Group has achieved recognized branding in its CG training and production ability in China and the region. The Group will continue to work with partners in China to expand its training business, leveraging on its branding and incurring as low capital cost as possible. As indicated above, both the Shanghai and Shenzhen City governments have made offers to the Group to expand its training business. The Group intends to accept these invitations and to market training as a separate business within the Group.

OUTLOOK

As indicated above, the long period of preparation to establish branding in the international market place has enabled the Group to engage international players in animation and the Group expects that its core CG business will become a sustainable business in the coming year.

GDC Technology continues to add values to the Group and has consolidated its international reputation as the world's leading and highly innovative digital cinema solutions provider. With the growing order, the Directors are optimistic that the revenue from the sale of digital cinema equipment will continue to grow.

The Board is considering ways to best position the Group's digital content distribution and exhibition business in the global environment. Plans under consideration include, amongst others, the addition of strategic investors for GDC Technology or a divestment plan, provided that the right valuation can be achieved.

The Board is also considering various plans to raise funds through the issue of new shares for equity capital or convertible instruments. The Directors have been in discussion with potential investors since 1 November 2004 and hope to make an announcement as soon as possible. Shareholders will be kept informed of developments and announcement will be made, in compliance with the Listing Rules, once any agreements have been reached.

OTHER INFORMATION

Directors' and Chief Executive's Interests or Short Positions in the Shares, Underlying Shares or Debentures

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

Long positions in Shares

Name of Director	Number of Shares	Capacity	Approximate percentage of interest (%)
Mr. Anthony Francis Neoh	124,974,230	Beneficial owner <i>(note 1)</i>	15.61
Mr. Raymond Dennis Neoh	262,640,289	Interest in a controlled corporation <i>(note 2)</i>	32.80
Dr. David Deng Wei	20,779,090	Interest in a controlled corporation and beneficiary of a trust <i>(note 3)</i>	2.59
Mr. Gordon Kwong Che Keung	200,000	Beneficiary of a trust <i>(note 4)</i>	0.02
Professor Japhet Sebastian Law	200,000	Beneficiary of a trust <i>(note 5)</i>	0.02
Mr. Stephen Scharf	200,000	Beneficiary of a trust <i>(note 6)</i>	0.02

Notes:

1. The 124,974,230 Shares were held by Mr. Anthony Francis Neoh directly.
2. 214,122,516 of these Shares were held by Upflow Holdings Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability and wholly-owned by Mr. Raymond Dennis Neoh. The remaining balance of the 48,517,773 Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.
3. The 20,579,090 of these Shares were held by Bright Oceans Corporation (HK) Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by Dr. David Deng Wei. The balance of the 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Dr. David Deng Wei.
4. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Gordon Kwong Che Keung.
5. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Professor Japhet Sebastian Law.
6. The 200,000 Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Stephen Scharf.

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

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

Notes:

7. On 20 March 2003, the shareholders of Forward Strategic Investments Limited, had by written resolution, adopted a share option scheme ("FS Scheme") also dated 20 March 2003, wherein its board is entitled to grant options to grantees such that they can purchase a total of 61,015,197 Shares from Forward Strategic Investments Limited pursuant to the terms of the FS Scheme.
8. Mr. Anthony Francis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 32,201,692 Shares.
9. Mr. Raymond Dennis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 4,818,450 Shares.

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

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Mr. Raymond Dennis Neoh	48,517,773 <i>(note 10)</i>	48,517,773	Interest in a controlled corporation <i>(note 10)</i>	6.06

Note:

10. Pursuant to the terms of the FS Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. On 21 September 2004, five of the grantees under the FS Scheme had, in aggregate, purchased 12,497,424 Shares from Forward Strategic Investments Limited, leaving a balance of 48,517,773 Shares available for purchases by other grantees under the FS Scheme in future. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited (which is wholly owned by Mr. Raymond Dennis Neoh), Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

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

SHARE OPTIONS

Sotas Options

On 5 June 2003, the Company granted a share option to Sotas Limited which entitles Sotas Limited to acquire 8,331,615 Shares from the Company within 36 months from 4 August 2003, the date of listing of the Shares, at an aggregate exercise price of US\$600,000.

No share option was exercised by Sotas Limited during the nine month period to 30 September 2004.

Share Option Scheme

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

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

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

Notes:

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

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

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

Name	No. of Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Sotas Limited	63,875,717	Beneficial owner <i>(note 1)</i>	7.98
Morningside Cyberventures Holdings Limited	63,875,717	Interest in a controlled corporation <i>(note 1)</i>	7.98
Verrall Limited	63,875,717	Interest in a controlled corporation <i>(note 1)</i>	7.98
Ms. Chan Tan Ching Fen	63,875,717	Founder of a trust <i>(note 1)</i>	7.98
Upflow Holdings Limited	262,640,289	Beneficial owner & interest in a controlled corporation <i>(notes 2 & 3)</i>	32.80
Forward Strategic Investments Ltd.	48,517,773	Beneficial owner <i>(note 2)</i>	6.06
Global Digital Creations Ltd.	48,517,773	Interest in a controlled corporation <i>(note 2)</i>	6.06
Cyber Prime Developments Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Billion On Development Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20
Festival Developments Ltd.	41,658,077	Interest in a controlled corporation <i>(note 4)</i>	5.20

Name	No. of Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Kingsway China Holdings Ltd.	41,658,077	Interest in a controlled corporation (note 4)	5.20
SW Kingsway Capital Holdings Ltd.	41,658,077	Interest in a controlled corporation (note 4)	5.20
World Developments Ltd.	41,658,077	Interest in a controlled corporation (note 4)	5.20
Innovation Assets Limited	41,658,077	Interest in a controlled corporation (note 4)	5.20
Kingsway International Holdings Ltd.	41,658,077	Interest in a controlled corporation (note 4)	5.20
Mr. Choi Koon Shum Jonathan	41,658,077	Interest in a controlled corporation (note 4)	5.20
Ms. Kwan Wing Kum Janice	41,658,077	Interest of a spouse (note 4)	5.20
Perfect Brilliant Limited	29,160,654	Beneficial owner (note 5)	3.64
Mr. Lam Ka Chung William	70,818,731	Interest in a controlled corporation (note 6)	8.84
Ms. Wong Lam Yuk Sin Mary	70,818,731	Interest of a spouse (note 6)	8.84

Notes:

- Of the 63,875,717 Shares/equity derivatives, 55,544,102 Shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen, who was taken to be interested in the Shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the Shares on GEM. On 5 June 2003, Forward Strategic Investments Limited granted a share Option to Sotas Limited which entitles Sotas Limited to acquire 8,331,615 Shares from Forward Strategic Investments Limited within 36 months from the date of listing of the Shares at an aggregate exercise price of US\$600,000 (equivalent to approximately HK\$4,680,000).

2. The 48,517,773 Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh.
3. The 214,122,516 Shares were held by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh.
4. The 41,658,077 Shares were held by Cyber Prime Developments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway Capital Holdings Limited, which is held as to 72% of its total issued share capital by World Developments Limited, which is in turn a wholly-owned subsidiary of Innovation Assets Limited, which is in turn a wholly-owned subsidiary of Kingsway International Holdings Limited, which is held as to approximately 48% of its total issued share capital by Mr. Choi Koon Shum Jonathan (through himself and his controlled corporations). Ms. Kwan Wing Kum Janice is the spouse of Mr. Choi Koon Shum Jonathan.
5. The 29,160,654 Shares were held by Perfect Brilliant Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Mr. Lam Ka Chung William.
6. Of the 70,818,731 Shares, 41,658,077 Shares were held by Cyber Prime Developments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway Capital Holdings Limited, which is held as to 72% of its total issued share capital by World Developments Limited, which is in turn a wholly-owned subsidiary of Innovation Assets Limited, which is in turn a wholly-owned subsidiary of Kingsway International Holdings Limited, which is held as to approximately 40% of its total issued share capital by Mr. Lam Ka Chung William (through himself and his controlled corporations). Ms. Wong Lam Yuk Sin Mary is the spouse of Mr. Lam Ka Chung William.

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

Name	Number and description of equity derivatives	Number of underlying Shares	Capacity	Approximate percentage of interest (%)
Forward Strategic Investments Limited	48,517,773 <i>(note 7)</i>	48,517,773	Interest in a controlled corporation <i>(note 7)</i>	6.06
Global Digital Creations Limited	48,517,773 <i>(note 7)</i>	48,517,773	Interest in a controlled corporation <i>(note 7)</i>	6.06
Upflow Holdings Limited	48,517,773 <i>(note 7)</i>	48,517,773	Interest in a controlled corporation <i>(note 7)</i>	6.06

Notes:

7. Pursuant to the terms of the FS Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. On 21 September 2004, five of the grantees under the FS Scheme had in aggregate purchased 12,497,424 Shares from Forward Strategic Investments Limited, leaving a balance of 48,517,773 Shares available for purchases by other grantees under the FS Scheme in future. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed in the paragraphs headed "Directors' and chief 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.

SPONSOR'S INTERESTS

Pursuant to an agreement dated 23 July 2003 entered into between the Company and Asia Investment Capital Limited (now known as Goldbond Capital (Asia) Limited), Goldbond Capital (Asia) Limited acts as the Company's continuing sponsor until 31 December 2005.

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

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

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS' DEALINGS IN SECURITIES

A code of conduct regarding directors' securities transactions adopted for the Group (the "Disclosure Policies") continued to be in force during the nine-month period ended 30 September 2004. Such code of conduct covers, inter alia, prohibition of dealings in the securities of the Company during the blackout periods prior to the announcement of results which are no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules or while in possession of price sensitive information.

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

AUDIT COMMITTEE

The Company has an audit committee established with written terms of reference in compliance with the GEM Listing Rules. The Group's quarterly results for the nine months ended 30 September 2004 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 Company's prospectus dated 23 July 2003, none of the directors, management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has or may have any other conflict of interests with the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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

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

On behalf of the Board
Raymond Dennis Neoh

Executive Director and Chief Executive Officer

Hong Kong, 12 November 2004

The board of Directors (the "Board") is pleased to present the unaudited condensed results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the nine months ended 30 September 2004 which are set out as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and the nine months ended 30 September 2004

	Note	Unaudited			
		Three months ended 30 September		Nine months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	1,896	1,814	17,187	5,973
Cost of sales		(1,729)	(1,725)	(13,794)	(4,448)
Gross profit		167	89	3,393	1,525
Other revenue	2	36	74	515	74
Other operating income		-	-	-	658
Administrative expenses		(6,674)	(8,866)	(25,338)	(17,994)
Other operating expenses		(626)	(1,416)	(2,779)	(2,826)
Operating loss		(7,097)	(10,119)	(24,209)	(18,563)
Finance costs		(1,410)	(978)	(3,592)	(4,198)
Loss for the period		(8,507)	(11,097)	(27,801)	(22,761)
Loss per share					
Basic		(1.06 cents)	(1.46 cents)	(3.52 cents)	(3.28 cents)
Diluted		N/A	N/A	N/A	N/A

NOTES TO UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and the nine months ended 30 September 2004

1. Basis of preparation of the unaudited consolidated profit and loss accounts

These unaudited consolidated profit and loss accounts have been prepared in accordance with the principal accounting policies of the Group which conform with accounting principles generally accepted in Hong Kong.

The accounting policies and methods of computation used in the preparation of these unaudited consolidated profit and loss accounts are consistent with those used in the audited financial statements for the year ended 31 December 2003.

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

2. Turnover and revenues

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

	Three months ended 30 September		Nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Training fees	1,222	280	3,367	1,480
Sales of goods	636	1,471	13,636	4,281
Box office receipts from distribution of digital motion pictures	–	25	24	98
Rental income from equipment leasing	19	19	104	57
Franchise fee from digital cinema for use of equipment	19	19	56	57
	1,896	1,814	17,187	5,973
Other revenue				
Interest income	1	74	7	74
Other income	35	–	508	–
Total revenues	1,932	1,888	17,702	6,047

3. Taxation

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in or deriving from Hong Kong during the nine months ended 30 September 2004 (2003: nil).

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

4. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

5. Loss per share

Basic loss per share for the three months and the nine months ended 30 September 2004 are calculated based on the loss for the period of HK\$8,507,000 and HK\$27,801,000 respectively and on an weighted average number of 800,820,000 shares and 790,561,971 shares respectively.

The comparative basic loss per share for the three months and the nine months ended 30 September 2003 are calculated based on the loss for the period of HK\$11,097,000 and HK\$22,761,000 respectively and on an aggregate of 757,659,783 shares and 694,223,168 shares respectively, comprising the weighted average number of 87,207,775 shares and 56,035,507 shares respectively in issue, and 670,452,008 shares and 638,187,661 shares respectively issued pursuant to the capitalization issue for the then shareholders upon completion of the Reorganisation, which were deemed to have been in issue since 1 January 2002.

Diluted losses per share for the three months and nine months ended 30 September 2004 and 2003 are not presented because there were no dilutive potential ordinary shares in existence during the periods.

6. Reserves

	Contributed surplus <i>(note a)</i> HK\$'000	Share premium <i>(note b)</i> HK\$'000	Share issuance costs <i>(note b)</i> HK\$'000	Statutory reserve <i>(note c)</i> HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2003	40,271	40,168	(9,069)	415	48	(42,906)	28,927
Premium on share issue	-	65,637	-	-	-	-	65,637
Capitalisation issue	-	(6,705)	-	-	-	-	(6,705)
Share issuance costs	-	-	(5,732)	-	-	-	(5,732)
Share issuance costs written off	-	(14,801)	14,801	-	-	-	-
Loss for the period	-	-	-	-	-	(11,097)	(11,097)
At 30 September 2003	40,271	84,299	-	415	48	(54,003)	71,030
At 1 July 2004	40,271	92,438	-	538	48	(83,809)	49,486
Loss for the period	-	-	-	-	-	(8,507)	(8,507)
At 30 September 2004	40,271	92,438	-	538	48	(92,316)	40,979

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