# Global Digital Creations Holdings Limited
# 環球數碼創意控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code 8271

# Third Quarterly Report 2006

* 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 (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.*

The board of Directors (the "Board") hereby reports the unaudited condensed consolidated income statement of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the nine months ended 30 September 2006, together with the unaudited comparative figures for the corresponding periods in 2005, which are set out as follows:

# UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

*For the three months and nine months ended 30 September 2006*

| | | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | **2006** | 2005 | **2006** | 2005 |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **15,883** | 8,185 | **34,206** | 18,505 |
| Cost of sales | | **(8,623)** | (8,774) | **(19,871)** | (20,709) |
| Allowance for production work in progress | | **–** | (19,789) | **(125)** | (19,789) |
| Gross profit (loss) | | **7,260** | (20,378) | **14,210** | (21,993) |
| Rental expense written back | | **–** | – | **–** | 3,394 |
| Other income | | **170** | 230 | **464** | 487 |
| Distribution costs | | **(1,102)** | (559) | **(4,989)** | (2,177) |
| Administrative expenses | | **(8,394)** | (7,536) | **(24,443)** | (25,226) |
| Finance costs | *4* | **(3,697)** | (2,315) | **(9,848)** | (5,758) |
| Gain on disposal of partial interest in a subsidiary | *5* | **1,510** | – | **1,510** | – |
| Loss before taxation | | **(4,253)** | (30,558) | **(23,096)** | (51,273) |
| Income tax expense | *6* | **–** | – | **–** | (360) |
| Loss for the period | | **(4,253)** | (30,558) | **(23,096)** | (51,633) |
| | | ***HK cents*** | *HK cents* | ***HK cents*** | *HK cents* |
| **Loss per share** | *8* | | | | |
| Basic | | **(0.53)** | (3.82) | **(2.88)** | (6.45) |
| Diluted | | **N/A** | N/A | **N/A** | N/A |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

*For the three months and nine months ended 30 September 2006*

## 1. Basis of preparation

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

The Group incurred losses of approximately HK$23,096,000 for the nine months ended 30 September 2006 and the Group had net current liabilities of approximately HK$154,669,000 and net liabilities of approximately HK$151,644,000 as at 30 September 2006. Notwithstanding, the Directors are of opinion that the preparation of this financial information on going concern basis is appropriate due to the following considerations:

*(i) Availability of facilities*

The amount available to the Group for borrowings under the facilities granted by SCG Finance Corporation Limited ("SCG Finance"), a wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand"), the Group's holding company incorporated in Bermuda as an exempted company with limited liability and with its securities listed on the Stock Exchange, as at 30 September 2006 was HK$100,000,000 and is available up to 31 December 2006, of which approximately HK$86,854,000 has been utilised as at 30 September 2006.

The Directors are of the opinion that SCG Finance would further extend the repayment date of the loan to such that the repayment would not have a material adverse effect on the operations of the Group.

*(ii) Financial support*

Both Shougang Grand and the controlling shareholder of Shougang Grand, Shougang Holding (Hong Kong) Limited, have committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue the Group's operations for a period of twelve months from 20 April 2006, the day of the Group's annual report for the year 2005. The Directors are of the option that Shougang Grand and/or Shougang Holding (Hong Kong) Limited will provide continuous support to the Group after then.

## 2. Significant accounting policies

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

The accounting policies used in the unaudited condensed consolidated income statement are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. In the current period, the Group started to generate subcontracting revenue from computer graphic ("CG") creation and production. Details of the accounting policy are described below.

*Subcontracting revenue from CG creation and production*

Revenue and costs from a subcontracting contract are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from contract customers under production work in progress. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to contract customers. Amounts received before the related work is performed are included in the balance sheet, as a liability, as income received in advance. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institution of Certified Public Accountants which are effective for accounting periods beginning on or after 1 December 2005. The application of the new HKFRSs had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these new standards, amendments and interpretations will have no material impact on the financial results of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosure[1] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HK (IFRIC) – INT 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2] |
| HK (IFRIC) – INT 8 | Scope of HKFRS 2[3] |
| HK (IFRIC) – INT 9 | Reassessment of Embedded Derivatives[4] |

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 March 2006.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.

## 3. Revenue

Revenue represents CG creation and production income, the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on training fee, technical service fee, rental income from leasing of equipment and franchise fee during the period. An analysis of the Group's revenue is as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| CG creation and production income | **9,262** | 2,283 | **18,830** | 3,377 |
| Sales of goods | **3,771** | 4,006 | **8,192** | 9,784 |
| Training fee | **2,550** | 1,725 | **6,437** | 4,388 |
| Technical service income | **299** | 144 | **524** | 663 |
| Rental income from equipment leasing | **1** | 27 | **223** | 274 |
| Franchise fee from digital cinema for use of equipment | **–** | – | **–** | 19 |
| | **15,883** | 8,185 | **34,206** | 18,505 |

## 4. Finance costs

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on: | | | | |
| Loan from a fellow subsidiary | **2,697** | 278 | **6,620** | 935 |
| Loans from related parties | **712** | 508 | **2,064** | 1,344 |
| Bank borrowings wholly repayable within five years | **215** | 485 | **879** | 1,543 |
| Finance leases | **73** | 188 | **280** | 466 |
| Loans from shareholders | **–** | 845 | **–** | 1,265 |
| Others | **–** | 11 | **5** | 205 |
| | **3,697** | 2,315 | **9,848** | 5,758 |

## 5. Gain on Disposal of Partial Interest in a Subsidiary

The amount represented the gain on a transfer of 15% interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, to the management of GDC Technology for an aggregate cash consideration of HK$1,600,000.

## 6. Income tax expense

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The income tax expense comprises: | | | | |
| Current tax | **–** | – | **–** | – |
| Deferred tax | | | | |
| – current period | **–** | – | **–** | 360 |
| | **–** | – | **–** | 360 |

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

Pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the People's Republic of China (the "PRC") and being approved by the relevant PRC tax authority, the subsidiaries in the PRC are eligible for an exemption from PRC Enterprise Income Tax for two years starting from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction of tax rate in the next three years.

## 7. Dividends

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2006 (2005: Nil).

## 8. Loss Per Share

The calculation of the basic loss per share for the three months and the nine months ended 30 September 2006 is based on the loss for the periods of approximately HK$4,253,000 and HK$23,096,000 (2005: HK$30,558,000 and HK$51,633,000), respectively, and the 800,820,000 shares (2005: 800,820,000 shares) in issue during the periods.

Diluted loss per share was not presented for the three months and nine months ended 30 September 2006 because there were no potential ordinary shares in existence for the periods. No diluted loss per share has been calculated for the three months and nine months ended 30 September 2005 as the exercise of the share options before their cancellations would result in a decrease in the loss per share.

## 9. Reserves

| | Share premium account (Unaudited) *HK$'000* | Capital contribution reserve (Unaudited) *HK$'000* | Contributed surplus (Unaudited) *HK$'000* | Statutory reserve (Unaudited) *HK$'000* | Share options reserve (Unaudited) *HK$'000* | Exchange reserve (Unaudited) *HK$'000* | Accumulated losses (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 92,438 | 445 | 40,271 | 680 | – | (44) | (270,010) | (136,220) |
| Exchange differences on transaction of subsidiaries outside Hong Kong | – | – | – | – | – | (336) | – | (336) |
| Loss for the period | – | – | – | – | – | – | (23,096) | (23,096) |
| Total recognised expenses for the period | – | – | – | – | – | (336) | (23,096) | (23,432) |
| At 30 September 2006 | 92,438 | 445 | 40,271 | 680 | – | (380) | (293,106) | (159,652) |
| At 1 January 2005 | 92,438 | – | 40,271 | 680 | 891 | 34 | (195,883) | (61,569) |
| Exchange differences on transaction of subsidiaries outside Hong Kong | – | – | – | – | – | (22) | – | (22) |
| Loss for the period | – | – | – | – | – | – | (51,633) | (51,633) |
| Total recognised expenses for the period | – | – | – | – | – | (22) | (51,633) | (51,655) |
| Sub-total | 92,438 | – | 40,271 | 680 | 891 | 12 | (247,516) | (113,224) |
| Recognition of equity-settled share-based payment | – | – | – | – | 1,338 | – | – | 1,338 |
| Cancellation of share option | – | – | – | – | (2,229) | – | 2,229 | – |
| Transfer to statutory reserve | – | – | – | 281 | – | – | (281) | – |
| At 30 September 2005 | 92,438 | – | 40,271 | 961 | – | 12 | (245,568) | (111,886) |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial overview

The unaudited revenue of the Group for the three months and the nine months ended 30 September 2006 were approximately HK$15,883,000 and HK$34,206,000 respectively, when compared with the revenue of approximately HK$8,185,000 and HK$18,505,000 respectively for the corresponding periods of the year 2005, represented an increase of approximately 94% and 85% respectively.

During the nine months ended 30 September 2006, the Group's revenue from CG creation and production amounted to approximately HK$18,830,000, increased for approximately 458% comparing with the corresponding period of the year 2005, as a result of that the Group's strategy of entering into the business of subcontractor of CG creation and production has been successful. Revenue of sales of digital cinema equipment decreased as progress of negotiation with customers were temporarily slower than expected and than in the corresponding period in the year 2005. Training fee income amounted to approximately HK$6,437,000, increased by approximately 47% mainly due to the increase in both number of course provided and average number of student attending each course. As the increase in revenue of CG creation and production and training fee has outweighed the decrease in revenue of digital cinema equipment, revenue increased in aggregate.

The Group made a gross profit of approximately HK$14,210,000 for the nine months ended 30 September 2006, representing a gross profit margin of approximately 42%. Comparing with the gross loss resulted in the corresponding period in the year 2005, there was a significant improvement in terms of both monetary value and percentage to revenue. The improvement was mainly the result of the success of the Group's strategy of entering into the business of subcontractor of CG creation and production.

Rental expense written back during the nine months ended 30 September 2005 was rental of premises occupied by the Group paid by the Shanghai Government as a form of support to the Group which is engaged in a business encouraged by the government. No support in such form was received during the nine months ended 30 September 2006.

Distribution costs for the nine months ended 30 September 2006 amounted to approximately HK$4,989,000 (2005: HK$2,177,000), representing an increase of approximately 129%. The increase in the distribution costs was mainly due to costs were incurred during the period under review for the promotion of the movie "Thru the Moebius Strip" which has been released in the summer of 2006.

Administrative expenses for the nine months ended 30 September 2006 amounted to approximately HK$24,443,000 (2005: HK$25,226,000), representing a decrease of approximately 3%. The decrease in the administrative expenses was mainly attributable to the saving of the expenses related to restructuring in the corresponding period in the year 2005.

Finance costs for the nine months ended 30 September 2006 amounted to approximately HK$9,848,000 (2005: HK$5,758,000), which represented mainly the interest costs for bank borrowings, finance costs for computer equipment leasing and interest cost for loan from a fellow subsidiary, SCG Finance Corporation Limited ("SCG Finance"), representing an increase of approximately 71%. The increase in finance costs was mainly due to that outstanding balance of the loans from SCG Finance and other borrowings had been increasing to finance the Group's loss incurred and the Group's development.

Gain on disposal of partial interest in a subsidiary of approximately HK$1,510,000 for the nine months ended 30 September 2006 represented the gain on a transfer of 15% interest in GDC Technology Limited ("GDC Technology") to the management of GDC Technology for an aggregate cash consideration of HK$1,600,000. The Board considers that the transfer would lead to GDC Technology's management having personal interests in GDC Technology and it would enhance their commitment and participation in the business of GDC Technology. As their personal investment will be directly affected by the performance of GDC Technology, the Board anticipates that GDC Technology's management would devote more time and be more focused on the business of GDC Technology. This additional commitment will facilitate the development of GDC Technology and in turn the continuous development of the Group.

Overall, the Group incurred loss of approximately HK$23,096,000 for the nine months ended 30 September 2006. Adjusted for the non-recurring income of rental expense written back amounted to approximately HK$3,394,000, the adjusted loss for the corresponding period in the year 2005 amounted to approximately HK$55,027,000. Loss for the nine months ended 30 September 2006 represented an improvement of approximately 58%, compared with the adjusted loss incurred in the corresponding period in the year 2005.

## Business Review

### *CG creation and production*

The Group's film "Thru the Moebius Strip" was released in China in this summer and became one of the hot talks in the film market. Its DVD right and Internet downloading right for China have also been licensed to outsiders, while its television right is under discussion with the most influential television channel for film broadcasting in China.

The Group's production studio has been completing a CG high definition television series, a co-producing project with a United States producer. The Group's business volume continued to grow and reorders from existing clients continued to be received. Negotiation with new clients has progressed. The studio was also producing a customised special feature film for a prestige PRC theme park operator. The success in production of the special feature film project will strengthen the Group's prestige status in the industry and represent the Group's advancement in production technology and the Group's success in exploring a new market.

The Group's capability of CG creation and production continued to be recognised by the industry. Having won the Golden Award of "Digital Conference 6+2" in the first half of the year 2006, the Group's short film "Peach Blossom Garden" has awarded Certificate of Merit of the Hong Kong ICT Awards 2006.

### *Digital content distribution and exhibitions*

The Group continued to be engaged in the business of distribution and exhibition of digital content through GDC Technology. Revenue from digital content distribution and exhibition decreased during the nine months ended 30 September 2006, due to the progress of negotiation with customers were temporarily slower than expected and than in the corresponding period in the year 2005 because most of the customers were waiting for GDC Technology launching servers fully complying with the specifications issued by Digital Cinema Initiative, LLC. ("DCI") that is considered as an industrial specifications (the "DCI Specification").

During the nine months ended 30 September 2006, GDC Technology found that size of order received was growing. GDC Technology has signed contracts ordering material quantity, for example 100 units in one single contract, of servers. It was considered as an evidence of large scale roll out of digitalised cinema.

Further, GDC Technology's technology has been applied in a more advanced manner. GDC Technology was selected by a Hong Kong listed company to supply a complete digital cinema solution to its first brand name flagship multiplex including multi-screen cinema, the in-lobby displays such as LCD digital signage, Plasma television monitors and indoor LED video wall which are to be fully integrated into one theater management system. Besides, GDC Technology's SA1000 DSR™ Digital Film Servers has commercially used as being one server playing digital cinema contents, live events, advertising, 3 dimension and alternative contents.

### *CG training*

The Group's CG training business continued to maintain high growth. While the Group has been developing CG training business through franchising arrangement, the Group has been improving its training materials and franchising manual in order to provide better courses and to have better management on franchised centres. Both number of students graduated and attending the Group's training coursed was increasing during the nine months ended 30 September 2006. It results in increasing revenue and cash flow contributed by the CG training business.

# Outlook

### *CG creation and production*

Based on the value of orders confirmed, the Group is expected to maintain high rate of growth in CG creation and production business.

At the same time, the Group is completing the customised special feature film project with the theme park operator and aiming at developing the new business of special feature film. At the same time, the Group continued exploring the possibility of helping the Group's products of the co-production project in entering into the PRC market and of licensing the rights of the Group's intellectual property.

### *Digital content distribution and exhibitions*

It is observed a significant increase in digital cinema deployment for the nine months ended 30 September 2006. GDC Technology has signed contracts ordering material quantity of servers and is expect the digitalisation of cinema will bring huge business opportunity to GDC Technology in the foreseeable future.

In August 2006, GDC Technology has launched its second generation digital cinema server at the Beijing International Radio, TV & Film Equipment Exhibition 2006 ("BIRTV"). The new server, SA2000 DSR™ Digital Film Server, while supporting existing formats of digital contents, supports "MXF JPEG2000" format, which is adopted by DCI. The SA2000 Server also can play out alternative contents such as pre-show entertainment, on-screen-advertisement and high definition television live-events in high quality. GDC Technology is on schedule to deliver the second generation digital cinema server which is capable of supporting the DCI MXF JPEG2000 format and expects most of the servers currently deployed in digital cinema theatres to be upgraded before the end of this year and more orders for the new servers will be received in the foreseeable future.

In addition, GDC Technology will continue growing its market share with the other new products including DSR™ NOC software and networked digital signage solutions. GDC Technology is in a unique position to offer its complete suite of content delivery and playback solutions with DSR™ NOC software for customers who run digital cinema, on-screen advertisement and out-of-home advertisement businesses. In this quarter, GDC Technology started generating revenues from its new products such as networked digital signage solutions and DSR™ NOC software and believes the abovementioned new products will enhance and expand GDC Technology's role as the leading supplier of digital content delivery and playback equipment to customers around the world.

To capture the benefit of the enormous growth in digital cinema equipment business, the Group has completed the first stage of GDC Technology's business restructuring by including GDC Technology's management as its shareholders, and now is considering finding more strategic partners.

### *CG training*

As the CG business develops, market demand for well trained CG artists continues to grow. The Group is improving its training materials and franchising manual to maintain its leading position in CG training business. With expansion of geographic coverage of training centres and the enhancement of training courses, the Directors are confident in achieving and maintaining high growth in revenue from CG training.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 September 2006, so far as is known to the Directors or the Chief Executive of the Company, the interests and short positions of the Directors, the chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to Rule 5.46 of the GEM Listing Rules, were as follows:

### Long positions in shares and underlying shares of Shougang Concord Grand (Group) Limited ("SCG")

| | Number of shares/underlying shares held in SCG | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Personal Interests** | **Others Interests** | **Equity derivatives (share option)*** | **Total Interests** | **Total percentage of shares in issue** |
| Cao Zhong | 8,278,679 | – | – | 8,278,679 | 0.73% |
| Leung Shun Sang, Tony | 8,278,000 | – | 679 | 8,278,679 | 0.73% |

* *The relevant interests are unlisted physically settled equity derivatives pursuant to Shougang Concord Grand (Group) Limited's ("Shougang Grand") share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.01 each in the share capital of Shougang Grand are issuable. The share options are personal to the respective Directors. No relevant share options have been exercised by the grantees.*

## Long positions in shares and underlying shares of GDC Technology Limited ("GDC Technology")

| | Number of shares/underlying shares held in GDC Technology | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Personal Interests** | **Others Interests** | **Equity derivatives (share option)*** | **Total interests** | **Total percentage of shares in issue** |
| Cao Zhong | 4,266,667 | – | 4,266,667 | 8,533,334 | 8% |
| Chen Zheng | 4,266,667 | – | 4,266,667 | 8,533,334 | 8% |
| Leung Shun Sang, Tony | – | – | 2,133,333 | 2,133,333 | 2% |
| Kwong Che Keung, Gordon | – | – | 1,706,667 | 1,706,667 | 1.6% |
| Xu Qing, Catherine | – | – | 320,000 | 320,000 | 0.3% |

* *The relevant interests are unlisted physically settled equity derivatives pursuant to the GDC Technology Limited's share option scheme adopted on 19 September 2006. The options at subscription price of HK$0.145 per share may be exercised in accordance with the terms of the share option scheme in full at any time within three years from 29 September 2006 and the options will expire at the close of business on 28 September 2009. No relevant share options have been exercised by the grantees.*

Save as disclosed above, as at 30 September 2006, none of the Directors and the chief executives of the Company nor their associates 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the nine months ended 30 September, 2006.

# INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, so far as is known to the Directors, the following, not being a Director or chief executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO:

## Long positions in the shares

| Name of shareholder | Capacity in which interests are held | Number of shares held in the Company | Percentage of interest as to the issued share capital of the Company | *Note(s)* |
|---|---|---|---|---|
| Shougang Holding (Hong Kong) Limited ("**Shougang Holding**") | Interests in controlled corporation | 658,466,023 | 82.22% | *1* |
| Shougang Concord Grand (Group) Limited ("**Shougang Grand**") | Interests in controlled corporation | 658,466,023 | 82.22% | *1* |
| Upper Nice Assets Ltd. ("**Upper Nice**") | Beneficial owner | 658,466,023 | 82.22% | *1* |
| Mr. Li Baoku | Beneficial owner | 58,000,000 | 7.24% | *2* |
| Sotas Limited ("**Sotas**") | Beneficial owner | 55,544,102 | 6.94% | *3* |
| Morningside CyberVentures Holdings Limited ("**Morningside**") | Other | 55,544,102 | 6.94% | *3* |
| Biswick Holdings Limited ("**Biswick**") | Other | 55,544,102 | 6.94% | *3* |
| Verrall Limited ("**Verrall**") | Other | 55,544,102 | 6.94% | *3* |
| Verrall Enterprises Holdings Limited | Other | 55,544,102 | 6.94% | *3* |
| Madam Chan Tan Ching Fen | Other | 55,544,102 | 6.94% | *3* |

*Notes:*

(1) Upper Nice is an indirectly wholly-owned subsidiary of Shougang Grand which is incorporated in Bermuda as an exempted company with limited liability with its securities listed on the main board of the Stock Exchange and is regarded to be held as to approximately 41% by Shougang Holding as recorded under the register Shougang Grand kept under Section 336 of the SFO. The interests held by Upper Nice are included in the interests held by both of Shougang Grand and Shougang Holding.

Upper Nice (as the grantor) and Shougang Grand (as the guarantor) granted the Put Options (as defined in the joint announcement of the Company and Shougang Grand dated 25 August 2005) and whereby Upper Nice is obliged to purchase 58,000,000 shares of the Company, representing approximately 7.24% of issued share capital of the Company at the exercise price of HK$0.22 per share. On 5 November 2005, the 58,000,000 Options Shares have been transferred to Mr. Li Baoku at a price of HK$0.20 per Option Share and the Put Option relating to such Option Shares have also been assigned to Mr. Li Baoku.

(2) Mr. Li Baoku beneficially owns 58,000,000 shares of the Company. In the event that exercises the Put Option, he will be entitled to sell up to all of the Option Shares beneficially owned by Mr. Li Baoku at the Exercise Price HK$0.22 and Upper Nice is obliged to purchase the 58,000,000 Option Shares of the Company in respect of which the Put Option is exercised at such Exercise Price.

(3) The 55,544,102 shares were held by Sotas a company incorporated in the British Virgin Islands with limited liability. Sotas is wholly-owned by Morningside. Morningside is wholly-owned by Biswick in its capacity as trustee of a unit trust and units of which are owned by Verrall Enterprise Holdings Limited and Verrall in their capacities as trustees of family trust established by Madam Chan Tan Ching Fen. Madam Chan Tan Ching Fen is taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as that term is defined in the SFO).

## Short positions in the shares

| Name of shareholder | Capacity in which interests are held | Number of shares held in the Company | Percentage of interest as to the issued share capital of the Company | *Note* |
|---|---|---|---|---|
| Mr. Li Baoku | Beneficial owner | 58,000,000 | 7.24% | *1* |

*Note:*

(1) The 58,000,000 Option Shares have been transferred to Mr. Li Baoku at a price of HK$0.20 per Option Share and the Put Option relating to such Option Shares have also been assigned to Mr. Li Baoku. Pursuant to the Option Agreement, in the event that exercises the Put Option, Mr. Li Baoku shall be entitled to sell up to all of the Option Shares beneficially owned by Mr. Li Baoku at the exercise price HK$0.22 and Upper Nice is obliged to purchase the 58,000,000 Option Shares of the Company in respect of which the Put Option is exercised at such exercise price.

Save as disclosed above, as at 30 September, 2006, the Directors and chief executives of the Company were not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## SHARE OPTIONS

The Company by shareholders' resolutions passed at its Special General Meeting held on 19 September 2006 has adopted a share option scheme of GDC Technology Limited ("the Scheme"). As at 30 September 2006, an aggregate of 21,333,333 share options have been granted to the relevant grantees by GDC Technology Limited.

The options at subscription price of HK$0.145 per share may be exercised in accordance with the terms of the Scheme in full at any time within three years from 29 September 2006 and the options will expire at the close of business on 28 September 2009. No relevant share options have been exercised by the grantees during the nine months ended 30 September 2006.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the nine months ended 30 September, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

# DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 September 2006, the interests of the Directors in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

| Name of Director | Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which were considered to compete or likely to compete with the businesses of the Group |
|---|---|---|
| Cao Zhong | Shougang Grand *(Note 1)* | Property investment and management financial services and cultural recreation content provision *(Note 2)* |
| Chen Zheng | Shougang Grand *(Note 1)* | Property investment and management financial services and cultural recreation content provision *(Note 2)* |
| Leung Shun Sang, Tony | Shougang Grand *(Note 1)* | Property investment and management financial services and cultural recreation content provision *(Note 2)* |

*Notes:*

(1) Shougang Grand through Upper Nice indirectly holds approximately 82.22% (including underlying shares) interests in the Company.

(2) Those businesses are carried out through its subsidiaries or associates or by way of other form of investments.

Save as disclosed above, none of the Directors, the chief executives, substantial shareholders or initial management shareholders of the Company or any of its subsidiaries or any of their respective associates, has an interest in any business, which competes or may compete with the business of the Group.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee comprises of Mr. Kwong Che Keung, Gordon, Mr. Bu Fan Xiao and Mr. Hui Hung, Stephen, all of whom are independent non-executive Directors.

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the three months and nine months ended 30 September 2006 and is of the opinion that the income statement reflecting such financial results complies with the applicable accounting standards, and the GEM Listing Rules and legal requirements and that adequate disclosures have been made.

By Order of the Board
**Chen Zheng**
*Executive Director*

Hong Kong, 14 November 2006

*As at the date of this report, the executive Directors are Mr. Cao Zhang, Mr. Chen Zheng, Mr. Jin Guo Ping and Dr. Xu Qing, Catherine, the non-executive Directors are Mr. Leung Shun Sang, Tony and Dr. Deng Wei, David, the independent non-executive Directors are Mr. Kwong Che Keung, Gordon, Mr. Bu Fan Xiao and Mr. Hui Hung, Stephen, the Alternate Director is Zhang Dong Sheng (Alternate to Dr. Deng Wai, David).*