

2007
Third Quarterly Report

CG Creation / Production

CG Training

Digital Content Distribution and Exhibitions



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)

* 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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CORPORATE INFORMATION

| | |
|-------------------------------|--|
| Board of Directors | Cao Zhong (<i>Chairman</i>) Chen Zheng (<i>Managing Director</i>) Jin Guo Ping (<i>Deputy Managing Director</i>) Xu Qing, Catherine (<i>Deputy Managing Director</i>) Lu Yi, Gloria (<i>Deputy Managing Director</i>) Leung Shun Sang, Tony (<i>Non-executive Director</i>) Kwong Che Keung, Gordon <i>(Independent Non-executive Director)</i> Bu Fan Xiao (<i>Independent Non-executive Director</i>) Hui Hung, Stephen (<i>Independent Non-executive Director</i>) |
| Executive Committee | Cao Zhong (<i>Chairman</i>) Chen Zheng Jin Guo Ping Xu Qing, Catherine Lu Yi, Gloria |
| Audit Committee | Kwong Che Keung, Gordon (<i>Chairman</i>) Bu Fan Xiao Hui Hung, Stephen |
| Nomination Committee | Cao Zhong (<i>Chairman</i>) Leung Shun Sang, Tony (<i>Vice Chairman</i>) Kwong Che Keung, Gordon Bu Fan Xiao Hui Hung, Stephen |
| Remuneration Committee | Leung Shun Sang, Tony (<i>Chairman</i>) Cao Zhong (<i>Vice Chairman</i>) Kwong Che Keung, Gordon Bu Fan Xiao Hui Hung, Stephen |
| Company Secretary | Cheng Man Ching |
| Qualified Accountant | Chiu Ming Kin |

CORPORATE INFORMATION *(Continued)*

| | |
|--|--|
| Compliance Officer | Chen Zheng |
| Auditor | Deloitte Touche Tohmatsu |
| Principal Registrars | The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda |
| Hong Kong Branch Share Registrars and Transfer Office | Tricor Standard Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |
| Registered Office | Clarendon House 2 Church Street Hamilton HM 11 Bermuda |
| Principal Office in Hong Kong | 6th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong |
| Stock Code | 8271 |
| Website | www.gdc-world.com |

THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") is pleased to report the unaudited condensed consolidated quarterly results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 30 September 2007 with comparative figures for the corresponding periods in 2006. These quarterly results have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the periods ended 30 September 2007

| | NOTES | Three months ended 30 September | | Nine months ended 30 September | |
|--|-------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2007 HK\$'000 (Unaudited) | 2006 HK\$'000 (Unaudited) | 2007 HK\$'000 (Unaudited) | 2006 HK\$'000 (Unaudited) |
| Revenue | 3 | 26,507 | 15,883 | 66,616 | 34,206 |
| Cost of sales | | (11,789) | (8,623) | (29,969) | (19,871) |
| Allowance for production work in progress | | - | - | - | (125) |
| Gross profit | | 14,718 | 7,260 | 36,647 | 14,210 |
| Other income | | 3,424 | 170 | 12,471 | 464 |
| Distribution costs | | (1,254) | (1,102) | (3,794) | (4,989) |
| Administrative expenses | | (12,855) | (8,394) | (37,631) | (24,443) |
| Finance costs | 4 | (536) | (3,697) | (3,966) | (9,848) |
| Gain on dilution of interest in a subsidiary | 5 | 385 | - | 40,680 | - |
| Gain on disposal of partial interest in a subsidiary | 6 | - | 1,510 | - | 1,510 |
| Profit (loss) for the period | | 3,882 | (4,253) | 44,407 | (23,096) |
| Attributable to: | | | | | |
| Equity holders of the parent | | 2,220 | (4,253) | 43,140 | (23,096) |
| Minority interests | | 1,662 | - | 1,267 | - |
| | | 3,882 | (4,253) | 44,407 | (23,096) |
| | | HK cents | HK cents | HK cents | HK cents |
| Earnings (loss) per share | 9 | | | | |
| Basic | | 0.17 | (0.53) | 4.00 | (2.88) |
| Diluted | | 0.17 | N/A | 3.87 | N/A |

THIRD QUARTERLY RESULTS *(Continued)*

NOTES:

1. Basis of preparation

The condensed consolidated income statement has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. Significant accounting policies

The condensed consolidated income statement has been prepared on the historical cost basis.

The accounting policies used in the 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 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

| | |
|--------------------|--|
| HKAS 23 (Revised) | Borrowing Costs ¹ |
| HKFRS 8 | Operating Segments ¹ |
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions ² |
| HK(IFRIC) – INT 12 | Service Concession Arrangements ³ |
| HK(IFRIC) – INT 13 | Customer Loyalty Programmes ⁴ |
| HK(IFRIC) – INT 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³ |

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

The Directors are in the process of assessing the potential impact and expect that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

THIRD QUARTERLY RESULTS *(Continued)*

3. Revenue

Revenue represented computer graphic ("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 and rental income from leasing of equipment during the period. An analysis of the Group's revenue was as follows:

| | Three months ended | | Nine months ended | |
|--------------------------------------|--------------------|----------|-------------------|----------|
| | 30 September | | 30 September | |
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| CG creation and production income | 16,518 | 9,262 | 38,770 | 18,830 |
| Sales of goods | 7,127 | 3,771 | 19,583 | 8,192 |
| Training fee | 2,652 | 2,550 | 6,913 | 6,437 |
| Technical service income | 148 | 299 | 1,288 | 524 |
| Rental income from equipment leasing | 62 | 1 | 62 | 223 |
| | 26,507 | 15,883 | 66,616 | 34,206 |

4. Finance costs

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|----------|
| | 30 September | | 30 September | |
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest on: | | | | |
| Loan from a fellow subsidiary | 263 | 2,697 | 3,155 | 6,620 |
| Bank borrowings wholly repayable within five years | 223 | 215 | 608 | 879 |
| Loans from related parties | 34 | 712 | 125 | 2,064 |
| Finance leases | 16 | 73 | 75 | 280 |
| Others | - | - | 3 | 5 |
| | 536 | 3,697 | 3,966 | 9,848 |

5. Gain on dilution of interest in a subsidiary

The amount for the nine months ended 30 September 2007 of approximately HK\$40,680,000 included (i) approximately HK\$40,295,000 from the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) in January 2007, and (ii) approximately HK\$385,000 from the gain on further dilution of the Group's interest in GDC Technology to approximately 51.1% upon exercise of share options of GDC Technology during the period.

THIRD QUARTERLY RESULTS *(Continued)*

6. Gain on disposal of partial interest in a subsidiary

The amount for the nine months ended 30 September 2006 represented the gain on transfer of 15% interest in GDC Technology to its management for an aggregate cash consideration of HK\$1,600,000.

7. Income tax expense

No provision for Hong Kong Profits Tax has been made in the 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", which for the purpose of this report, does not include Hong Kong, Macau and Taiwan) 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.

8. Dividends

The Directors did not recommend the payment of dividend for the nine months ended 30 September 2007 (2006: Nil).

9. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the parent was based on the following data:

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|----------|-----------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Earnings (loss): | | | | |
| Earnings (loss) for the purpose of basic and diluted earnings (loss) per share (profit (loss) for the period attributable to equity holders of the parent) | 2,220 | (4,253) | 43,140 | (23,096) |
| | '000 | '000 | '000 | '000 |
| Number of shares: | | | | |
| Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share | 1,279,427 | 800,820 | 1,078,233 | 800,820 |
| Effect of dilutive potential ordinary shares: | | | | |
| – share options | 16,931 | – | 35,436 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | 1,296,358 | 800,820 | 1,113,669 | 800,820 |

THIRD QUARTERLY RESULTS *(Continued)*

10. Condensed consolidated statement of changes in equity

| | Attributable to equity holders of the parent | | | | | | | | | | Equity component of share options reserve of a subsidiary | Minority interests | Total |
|---|--|-----------------------|------------------------------|---------------------|-------------------|-----------------------|------------------|------------------|------------------|------------|---|--------------------|----------|
| | Share capital | Share premium account | Capital contribution reserve | Contributed surplus | Statutory reserve | Share options reserve | Exchange reserve | Deficit | Total | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2007 | 8,008 | 92,438 | 445 | 40,271 | 680 | 5,590 | (2,205) | (300,253) | (155,026) | 317 | - | (154,709) | |
| Exchange differences on translation of operations outside Hong Kong recognised directly in equity | - | - | - | - | - | - | (2,435) | - | (2,435) | - | - | (2,435) | |
| Profit for the period | - | - | - | - | - | - | - | 43,140 | 43,140 | - | 1,267 | 44,407 | |
| Total recognised (expense) income for the period | - | - | - | - | - | - | (2,435) | 43,140 | 40,705 | - | 1,267 | 41,972 | |
| Sub-total | 8,008 | 92,438 | 445 | 40,271 | 680 | 5,590 | (4,640) | (257,113) | (114,321) | 317 | 1,267 | (112,737) | |
| Share issued | 4,320 | 479,624 | - | - | - | - | - | - | 483,944 | - | - | 483,944 | |
| Transaction costs attributable to issue of shares | - | (12,740) | - | - | - | - | - | - | (12,740) | - | - | (12,740) | |
| Increase in minority share of a subsidiary | - | - | - | - | - | - | - | - | - | - | 9,940 | 9,940 | |
| Exercise of share options | 615 | 29,791 | - | - | - | (7,659) | - | - | 22,747 | - | - | 22,747 | |
| Exercise of share options of a subsidiary | - | - | - | - | - | - | - | - | - | (212) | 2,249 | 2,037 | |
| Recognition of equity-settled share based payments | - | - | - | - | - | 7,925 | - | - | 7,925 | - | - | 7,925 | |
| Cancellation of share options granted by a subsidiary | - | - | - | - | - | - | - | 8 | 8 | (8) | - | - | |
| At 30 September 2007 | 12,943 | 589,113 | 445 | 40,271 | 680 | 5,856 | (4,640) | (257,105) | 387,563 | 97 | 13,456 | 401,116 | |
| At 1 January 2006 | 8,008 | 92,438 | 445 | 40,271 | 680 | - | (44) | (270,010) | (128,212) | - | - | (128,212) | |
| Exchange differences on translation of operations outside Hong Kong recognised directly in equity | - | - | - | - | - | - | (336) | - | (336) | - | - | (336) | |
| Loss for the period | - | - | - | - | - | - | - | (23,096) | (23,096) | - | - | (23,096) | |
| Total recognised expense for the period | - | - | - | - | - | - | (336) | (23,096) | (23,432) | - | - | (23,432) | |
| As 30 September 2006 | 8,008 | 92,438 | 445 | 40,271 | 680 | - | (380) | (293,106) | (151,644) | - | - | (151,644) | |

THIRD QUARTERLY RESULTS *(Continued)*

11. Subsequent events

- (a) On 14 August 2007, GDC Holdings Limited ("GDC Holdings"), a wholly owned subsidiary of the Company, entered into a subscription agreement with GDC Technology to subscribe for 53,388,178 new shares of GDC Technology at HK\$2 per new share of GDC Technology for a total consideration of approximately HK\$106.78 million (the "GDC Tech Subscription"). The GDC Tech Subscription was approved and completed up to the date of this report.

Upon completion of the GDC Tech Subscription, the Group's effective interest in GDC Technology increased from approximately 51.1% to 62.4%.

- (b) On 14 August 2007, GDC Holdings entered into an agreement (the "Agreement") with Shougang Holding (Hong Kong) Limited ("Shougang Holding"), for the acquisition of 100% interest in the issued share capital of Shougang GDC Media Holding Limited ("Shougang GDC Media") for a consideration of HK\$42 million. The consideration was paid as to HK\$41.5 million as deposit within one month from the date of the Agreement and as to HK\$0.5 million at the completion date (the "Shougang GDC Media Acquisition"). The Shougang GDC Media Acquisition was approved and completed up to the date of this report.

The sole asset of Shougang GDC Media is its 49% interest in 中影首鋼環球數碼數字影院建設（北京）有限公司 (CFGDC Digital Cinema Company Limited), a sino-foreign joint venture incorporated in the PRC ("PRC Media JV"). PRC Media JV is principally engaged in the deployment of digital cinema network and related businesses in the PRC. Shougang Holding undertook that the deposit of HK\$41.5 million received would be injected by Shougang Holding into Shougang GDC Media as a shareholder's loan and such shareholder's loan was assigned to GDC Holdings upon completion of the Shougang GDC Media Acquisition at nil consideration.

- (c) On 30 October 2007, the Company granted 38,070,000 share options of the Company to eligible participants under the Company's share option scheme at an exercise price of HK\$2.75 per share.
- (d) On 2 November 2007, GDC Technology granted 19,095,000 share options of GDC Technology to eligible participants to subscribe for shares of GDC Technology, at a subscription price of HK\$2 per share exercisable during the five-year period after date of grant (the "GDC Tech Options"). As at date of this report, the GDC Tech Options, if fully exercised, would represent approximately 8.3% of the existing issued share capital of GDC Technology and approximately 7.3% of the issued share capital of GDC Technology as enlarged by exercise of the GDC Tech Options.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the three months and the nine months ended 30 September 2007 was approximately HK\$26,507,000 and HK\$66,616,000, respectively, when compared with that of approximately HK\$15,883,000 and HK\$34,206,000, respectively, for the corresponding periods in the year 2006, represented an increase of approximately 67% and 95%. The increase was mainly attributable to the increase in revenue from digital content distribution and exhibitions division, and computer graphic ("CG") creation and production division.

During the nine months ended 30 September 2007, the Group's revenue from digital content distribution and exhibitions division, which mainly consisted of sales of digital cinema equipment and the relevant technical service income, amounted to approximately HK\$20,933,000, increased for approximately 134% comparing with that for the corresponding period in the year 2006. This increase was mainly due to many orders for new products in compliance with the new industrial technical standard, which were just coming out in the fourth quarter of 2006, were received during this period. The Group's revenue from CG creation and production division amounted to approximately HK\$38,770,000, increase for approximately 106% comparing with that for the corresponding period in the year 2006, a result of increase in both works from new clients and repeated orders from existing clients.

Cost of sales for the nine months ended 30 September 2007 amounted to approximately HK\$29,969,000 which, comparing with that of approximately HK\$19,871,000 for the corresponding period in the year 2006, represented an increase of approximately 51%.

The Group made a gross profit of approximately HK\$36,647,000 for the nine months ended 30 September 2007, representing a gross profit margin of approximately 55%. Comparing with the gross profit margin of approximately 42% for the corresponding period in the year 2006, the improvement was mainly attributable to higher margin on sales of new products of digital cinema equipment and increase in efficiency in CG creation and production division.

Other income for the nine months ended 30 September 2007 amounted to approximately HK\$12,471,000 (2006: HK\$464,000) mainly represented the waiving of certain interest payable on other loans and rental payable of approximately HK\$4,156,000 and HK\$3,228,000, respectively, upon entering into settlement agreements with relevant parties, and interest income of approximately HK\$4,396,000 earned during this period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Administrative expenses for the nine months ended 30 September 2007 amounted to approximately HK\$37,631,000 (2006: HK\$24,443,000), representing an increase of approximately 54%. The increase was mainly due to recognition of equity-settled share based payments of approximately HK\$7,925,000 for the share options granted during this period, and increase in operating expenses as a result of increase in the operations of the Group.

Finance costs for the nine months ended 30 September 2007 amounted to approximately HK\$3,966,000 (2006: HK\$9,848,000), representing a decrease of approximately 60%. The decrease was mainly attributable to decrease in interest to a fellow subsidiary and related parties of approximately HK\$3,465,000 and HK\$1,939,000, respectively.

Gain on dilution of interest in a subsidiary of approximately HK\$40,680,000 for the nine months ended 30 September 2007 included (i) approximately HK\$40,295,000 from the gain on dilution of the Group's interest in GDC Technology Limited ("GDC Technology"), a subsidiary of the Company, from approximately 83.3% to 56.3% of the issued capital of GDC Technology upon the completion of the subscription of 52,383,580 shares of GDC Technology by a subscriber at a consideration of US\$6.5 million (or equivalent to approximately HK\$50,570,000) in January 2007, and (ii) approximately HK\$385,000 from the gain on further dilution of the Group's interest in GDC Technology to approximately 51.1% upon exercise of share options of GDC Technology during this period. With this additional funding, digital content distribution and exhibitions division was in a better position to expedite the rolling out of its business plan and enhanced its research and development activities.

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 transfer of 15% interest in GDC Technology to its management for an aggregate cash consideration of HK\$1,600,000.

Overall, the Group recorded profit of approximately HK\$43,140,000 for the nine months ended 30 September 2007 attributable to equity holders of the Company, when compared with that loss of approximately HK\$23,096,000 for the corresponding period in the year 2006.

BUSINESS REVIEW

Digital content distribution and exhibitions

The significant improvement in digital content distribution and exhibitions division for the nine months ended 30 September 2007 was due to the continue acceptance of the new generation of digital cinema server which adopts the Digital Cinema Initiative ("DCI") specifications and receiving worldwide customers' repeat orders to upgrade their digital cinema theatres to this next generation digital cinema server throughout the world. Besides, the Group has also set up its office in the United States of America ("USA") to enhance its service and marketing activities there. During this period, the Group received an order to install equipment to four digital cinema theatres in USA with the new product – DCI-2000 Digital Cinema Integrated Projection System.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Digital content distribution and exhibitions (Continued)

The Group also delivered and installed equipment to a new 3D digital cinema theatre in Hong Kong with its new product – DCI-2000 Digital Cinema Integrated Projection System. Besides, the certificate of Hong Kong origin with CEPA (Closer Economic Partnership Arrangement) was issued by Hong Kong Trade and Development Council for DCI-2000 and this can exempt the import duty of DCI-2000 to the People's Republic of China (the "PRC," which for the purpose of this report, does not include Hong Kong, Macau and Taiwan). The Group continued to be the market leader in Asia, in particularly in the PRC where it enjoyed more than 95% market share in digital cinemas in the PRC.

At the China Beijing 5th Digital Cinema Forum held on 24 August 2007 during Beijing International Radio, TV & Film Equipment Exhibition ("BIRTV") where latest updates on digital cinema businesses and technologies were presented, the Group presented its new SA2100 DSR™ Digital Film Server capable of playing out 3D content. At the Digital Cinema Forum, this new SA2100 server was selected for the 3D screenings of the latest 3D Hollywood feature film trailers and also won the coveted 2007 BIRTV Award for Outstanding Product.

During this period, the Group also completed digitalisation of a high profile cinema multiplex in the PRC, based on the state-of-the-art Digital-Cinema-Total-Solution platform designed groundup by the Group. With the Group's total solution for digital cinema, the cinema operator can now display the full array of trailers, advertisements and alternative content on both the in-foyer displays and in-theatres screens through a centrally controlled Theater Management System that in turns is remotely monitored by a Network Operation Center. The various display devices can now be programmed from the ticketing system to playback all kind of content in coherency and up-to-the-last minute media can be delivered to all the various display devices connected to a central server. The installed system is so successful that other high-end cinema multiplexes in the PRC and Hong Kong have also begun installing the similar system supplied by the Group.

In addition, the Group has also installed networked digital signage solutions to new customers in Asia including a flagship cinema multiplex in Hong Kong and shopping malls in Singapore. Up to the date of this report, the Group has delivered and installed to more than 10 shopping malls in Singapore with its digital signage solutions. The Group envisage the rate of conversion of public area display systems used for out-of-home advertisement to digital systems, to accelerate in the year 2007.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

CG creation and production

The Group's business volume in CG creation and production division grows continuously since the Group changed its strategy to enter into the business of subcontracting of CG creation and production. It resulted in a profit from this division for this period.

During this period, having completed several direct-to-home films and television series production projects, a co-production project and a feature film project, the Group continued delivering episodes of direct-to-home films and television series to clients.

The quality of the Group's service has won recognition in the industry. Three renowned distributors headquartered in Hollywood have respectively committed to distribute one direct-to-home film and two television series produced by the Group. Such recognition has generated new orders from all the existing clients for the Group. At present, in addition to domestic business in the PRC, the Group has expanded its customer base to USA, Europe, Japan and Middle East region.

CG training

The Group's CG training division served as a core component of its strategy towards professionalism. Tailored for students in the PRC, its training courses focused on the basic knowledge of CG production. With the best training, highest graduates employment rate and comprehensive training materials, the Group maintains a leading position in the CG professional training domain in the PRC. The Group also developed its infrastructure continuously to maintain its best training environment in the PRC. Through continued improvement in the management system and focused marketing programs, the Group recorded steady revenue growth from CG training division of approximately 7% for the nine months ended 30 September 2007, comparing with that for the corresponding period in the year 2006.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OUTLOOK

Digital content distribution and exhibitions

The Group continue to upgrade its products and market them through participation in international trade exhibitions and high profile demonstration projects. At 2007 ShoWest convention in March 2007, the Group launched an important new digital cinema product – DCI-2000 Digital Cinema Integrated Projection System that answers to the exhibitors' need of a fully integrated projector – server system. DCI-2000 addresses some of the biggest challenges of delivering, installing, operating and maintaining of digital cinema system in cinema multiplexes. The Group also unveiled another new product – SA2100 DSR™ Digital Film Server which is 33% smaller in size and designed to meet DCI specifications such as Texas Instruments Cinelink™ 2 and Hollywood's approved forensic watermarking features. The SA2100 server is a cost-effective and flexible solution for digital cinema and alternative content sources to be playout in a seamless pipeline; various formats of content such as live interview, on-screen advertisement and feature films can be programmed to playout without the need to re-initialise the server and/or projector for different image formats.

On the other hand, there are a rapidly growing number of cinemas going digital, over 3,000 North American screens have been digitalised. The biggest cinema chains in USA have announced to digitalise their cinemas next year, and a company in Europe signed "Virtual Print Fees" contracts with three major Hollywood studios up to the date of this report for its roll-out plan of digital cinemas there. With the increase in demand for digital cinema equipment and the successful development of DSR™ range of products, the Group expect there will be further improvement of business in this division for the remaining part of the year 2007 and in the future.

During this period, the Group successfully strengthened its production facilities in Shenzhen and Hong Kong in preparation of mass production of digital cinema equipment. The initial production capacity aimed to produce 250 units per month with the aim of ramping up the production to 400 units in 6-month time.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OUTLOOK *(Continued)*

Digital content distribution and exhibitions (Continued)

In addition, the sino-foreign joint venture with China Film Group Corporation (“CFGC”) for the deployment of digital cinema network and related businesses in the PRC was established in the PRC in August 2007 and its 49% interest has already been transferred to the Group up to the date of this report. The digital cinema equipment to be installed will be to the major cinemas in the PRC and the Group is target to install 600 units by end of the year 2007, the Group and CFGC will share a portion of box office receipts of those cinemas using the digital cinema equipment for distribution of digital motion pictures. This will highly accelerate the digitalisation of the film distribution and exhibitions industry in the PRC and at the same time, lay a solid foundation for commencing related businesses of the Group, thus enable the Group to become the technology supplier of digital cinema in the PRC as well as the pioneer and key player in related businesses on top of its basis as a provider of digital cinema equipment worldwide.

CG creation and production

Based on the orders secured up to date of this report, the Group’s revenue from CG creation and production division for the whole year 2007 will have substantial growth comparing with that for the year 2006. The CG creation and production division is expected to have a profit for the year 2007 as well.

Negotiations for new orders and various partnerships are undergoing. Considering the value of orders under discussion and the clients’ trust and dependency on the Group and the fact that the Group’s reputation in the industry are being enhanced, it is expected that the high growth rate of revenue will be maintained in the year 2008. It is worth more appreciation that all existing clients of the Group are negotiating new cooperation with the Group.

The PRC governments of various levels have been continuously recognising the Group as the leader in the CG industry in the PRC and have provided the Group with various forms of support, including supporting the Group to build a new building in Shenzhen as its headquarters.

CG creation and production division certainly is in a rapidly growing market both domestically and internationally. In order to maintain the Group’s leader position in the PRC and seize the market opportunities, the Group will continuously improve its market share, production efficiency and creative ability. Besides, the Group is also actively studying the feasibility of establishment of a new studio. Preliminary discussions with various parties, including local government for the potential new studio, are in progress.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OUTLOOK *(Continued)*

CG training

With the view of great success in the CG creation and production division, attracting more students and raising market demand for graduates, the Group will design new courses emphasising practical skills and including more case studies to in line with the market needs and enhance the production capability of the students. Besides, the Group's training centre in Shanghai and Shenzhen has already certified by the local government to be a vocational training centre, and the Group is considering the establishment of its third training centre, this will strengthen the training brand of the Group in the PRC. To conclude, the Group will further expand its training network throughout the PRC with Shanghai, Shenzhen and its new training centre as the core centers. The Group will also upgrade and strengthen its training system, the quality of its teaching staff and the graduate employment network.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the nine months ended 30 September 2007 (2006: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the period under review.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors who held office at 30 September 2007 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 30 September 2007 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 the required standard of dealings by Directors as referred to in rule 5.46 of the GEM Listing Rules:

(a) Long positions in the shares and underlying shares of the Company

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in the Company | | | Total interests as to % to the issued share capital of the Company as at 30.09.2007 |
|-------------------------|--------------------------------------|--|-------------------------------------|-----------------|---|
| | | Interests in shares | Interests under equity derivatives* | Total interests | |
| Cao Zhong | Beneficial owner | 8,008,200 | – | 8,008,200 | 0.62% |
| Chen Zheng | Beneficial owner | 8,008,200 | – | 8,008,200 | 0.62% |
| Jin Guo Ping | Beneficial owner | – | 8,008,200 | 8,008,200 | 0.62% |
| Xu Qing, Catherine | Beneficial owner | 8,008,200 | – | 8,008,200 | 0.62% |
| Leung Shun Sang, Tony | Beneficial owner | 8,008,200 | – | 8,008,200 | 0.62% |
| Kwong Che Keung, Gordon | Beneficial owner | – | 800,820 | 800,820 | 0.06% |
| Bu Fan Xiao | Beneficial owner | – | 800,820 | 800,820 | 0.06% |
| Hui Hung, Stephen | Beneficial owner | 800,820 | – | 800,820 | 0.06% |

* The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 18 July 2003 (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 the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

- (b) Long positions in the shares and underlying shares of Shougang Concord Grand (Group) Limited ("Shougang Grand"), an associated corporation of the Company

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in Shougang Grand | | | Total interests as to % to the issued share capital of Shougang Grand as at 30.09.2007 |
|-----------------------|--------------------------------------|---|-------------------------------------|-----------------|--|
| | | Interests in shares | Interests under equity derivatives* | Total interests | |
| Cao Zhong | Beneficial owner | - | 11,368,000 | 11,368,000 | 0.99% |
| Chen Zheng | Beneficial owner | - | 11,368,000 | 11,368,000 | 0.99% |
| Leung Shun Sang, Tony | Beneficial owner | 8,278,000 | 11,368,679 | 19,646,679 | 1.71% |

* The relevant interests are unlisted physically settled options granted pursuant to Shougang Grand's share option scheme adopted on 7 June 2002 (the "Shougang Grand Scheme"). Upon exercise of the share options in accordance with the Shougang Grand 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(c) Long positions in the shares and underlying shares of GDC Technology Limited ("GDC Tech"), an associated corporation of the Company

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares held in GDC Tech | | | Total interests as to % to the issued share capital of GDC Tech as at 30.09.2007 |
|-------------------------|--------------------------------------|---|-------------------------------------|-----------------|--|
| | | Interests in shares | Interests under equity derivatives* | Total interests | |
| Cao Zhong | Beneficial owner | 8,533,334 | – | 8,533,334 | 4.81% |
| Chen Zheng | Beneficial owner | 8,533,334 | – | 8,533,334 | 4.81% |
| Xu Qing, Catherine | Beneficial owner | 320,000 | – | 320,000 | 0.18% |
| Leung Shun Sang, Tony | Beneficial owner | 2,130,000 | 3,333 | 2,133,333 | 1.20% |
| Kwong Che Keung, Gordon | Beneficial owner | – | 1,706,667 | 1,706,667 | 0.96% |

* The relevant interests are unlisted physically settled options granted pursuant to GDC Tech's share option scheme adopted on 19 September 2006 (the "GDC Tech Scheme"). Upon exercise of the share options in accordance with the GDC Tech Scheme, ordinary shares of HK\$0.10 each in the share capital of GDC Tech are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.

Save as disclosed above, as at 30 September 2007, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 as referred to in rule 5.46 of the GEM Listing Rules.

Other than those disclosed in this section and the section headed "Share Options", 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 2007.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 September 2007, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

| Name of shareholder | Capacity in which interests are held | Number of shares held in the Company | Interests as to % to the issued share capital of the Company as at 30.09.2007 |
|---|--------------------------------------|--------------------------------------|---|
| Shougang Holding (Hong Kong) Limited ("Shougang Holding") | Interests of controlled corporations | 656,790,023 <i>(Note)</i> | 50.74% |
| Shougang Grand | Interests of controlled corporations | 656,790,023 <i>(Note)</i> | 50.74% |
| Upper Nice Assets Ltd. ("Upper Nice") | Beneficial owner | 656,360,023 <i>(Note)</i> | 50.71% |
| Keywise Capital Management (HK) Limited | Investment manager | 97,842,000 | 7.56% |
| Keywise Greater China Opportunities Master Fund | Beneficial owner | 69,474,000 | 5.37% |

Note: Upper Nice was an indirectly wholly-owned subsidiary of Shougang Grand which was held as to approximately 42.6% by Shougang Holding. The interest held by Upper Nice was included in the interests held by both of Shougang Grand and Shougang Holding.

Save as disclosed above, as at 30 September 2007, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

(a) Share options of the Company

On 18 July 2003, the Scheme which complies with the requirements of Chapter 23 of the GEM Listing Rules was adopted by the shareholders of the Company. No share option was cancelled or lapsed in accordance with the terms of the Scheme during the nine months ended 30 September 2007. Details of movement in the share options under the Scheme during the period are as follows:

| Options to subscribe for shares of the Company | | | | | | | |
|--|--------------------------------|---------------------------|-----------------------------|--------------------------|---------------|-------------------------|--------------------------|
| Category or name of grantees | At the beginning of the period | Granted during the period | Exercised during the period | At the end of the period | Date of grant | Exercise period | Exercise price per share |
| Directors of the Company | | | | | | | |
| Cao Zhong | 8,008,200 | - | (8,008,200) | - | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Chen Zheng | 8,008,200 | - | (8,008,200) | - | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Jin Guo Ping | 8,008,200 | - | - | 8,008,200 | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Xu Qing, Catherine | 8,008,200 | - | (8,008,200) | - | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Leung Shun Sang, Tony | 8,008,200 | - | (8,008,200) | - | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Kwong Che Keung, Gordon | 800,820 | - | - | 800,820 | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Bu Fan Xiao | 800,820 | - | - | 800,820 | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| Hui Hung, Stephen | 800,820 | - | (800,820) | - | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| | 42,443,460 | - | (32,833,620) | 9,609,840 | | | |

SHARE OPTIONS *(Continued)***(a) Share options of the Company** *(Continued)*

| Options to subscribe for shares of the Company | | | | | | | |
|--|--------------------------------|---------------------------|-----------------------------|--------------------------|---------------|-------------------------|--------------------------|
| Category or name of grantees | At the beginning of the period | Granted during the period | Exercised during the period | At the end of the period | Date of grant | Exercise period | Exercise price per share |
| Employees of the Group | | | | | | | |
| | 14,200,000 | - | (14,200,000) | - | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| | - | 3,000,000 | (700,000) | 2,300,000 | 22.03.2007 | 22.03.2007 – 21.03.2010 | HK\$1.07 |
| | - | 2,890,000 | (548,000) | 2,342,000 | 04.04.2007 | 04.04.2007 – 03.04.2010 | HK\$1.52 |
| | 14,200,000 | 5,890,000 | (15,448,000) | 4,642,000 | | | |
| Other Participants | | | | | | | |
| | 13,204,920 | - | (10,704,100) | 2,500,820 | 06.10.2006 | 06.10.2006 – 05.10.2009 | HK\$0.30 |
| | - | 4,340,000 | (2,529,000) | 1,811,000 | 04.04.2007 | 04.04.2007 – 03.04.2010 | HK\$1.52 |
| | 13,204,920 | 4,340,000 | (13,233,100) | 4,311,820 | | | |
| | 69,848,380 | 10,230,000 | (61,514,720) | 18,563,660 | | | |

SHARE OPTIONS *(Continued)*

(b) Share options of a subsidiary of the Company – GDC Tech

On 19 September 2006, the GDC Tech Scheme was adopted by the shareholders of the Company and Shougang Grand. No share option was granted or cancelled in accordance with the terms of the GDC Tech Scheme during the nine months ended 30 September 2007. Details of movement in the share options under the GDC Tech Scheme during the period are as follows:

| Options to subscribe for shares of GDC Tech | | | | | | | |
|---|--------------------------------|-----------------------------|--------------------------|--------------------------|---------------|-------------------------|--------------------------|
| Category or name of grantees | At the beginning of the period | Exercised during the period | Lapsed during the period | At the end of the period | Date of grant | Exercise period | Exercise price per share |
| Directors of the Company | | | | | | | |
| Cao Zhong | 4,266,667 ¹ | (4,266,667) | – | – | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| Chen Zheng | 4,266,667 ¹ | (4,266,667) | – | – | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| Xu Qing, Catherine | 320,000 | (320,000) | – | – | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| Leung Shun Sang, Tony | 3,333 ¹ | – | – | 3,333 | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| Kwong Che Keung, Gordon | 1,706,667 ¹ | – | – | 1,706,667 | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| | 10,563,334 | (8,853,334) | – | 1,710,000 | | | |
| Other individual with options granted in excess of limit | | | | | | | |
| Chong Man Nang | 7,466,666 ¹ | (7,466,666) | – | – | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| Employees | | | | | | | |
| of the Group | 5,193,332 | – | (630,000) ² | 4,563,332 | 05.10.2006 | 05.10.2006 – 04.10.2009 | HK\$0.145 |
| Other Participants | | | | | | | |
| | 1,173,333 | – | – | 1,173,333 | 29.09.2006 | 29.09.2006 – 28.09.2009 | HK\$0.145 |
| | 24,396,665 | (16,320,000) | (630,000) | 7,446,665 | | | |

SHARE OPTIONS *(Continued)*

(b) Share options of a subsidiary of the Company – GDC Tech *(Continued)*

Notes:

1. The number of share options granted to Mr. Cao Zhong, Mr. Chen Zheng, Mr. Leung Shun Sang, Tony, Mr. Kwong Che Keung, Gordon and Dr. Chong Man Nang on 29 September 2006 each exceeded the individual limit of 1% of the shares of GDC Tech then in issue and were approved by the shareholders of the Company and Shougang Grand on 19 September 2006 respectively.
2. The share options were held by grantees who ceased to be employees of the Group during the period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to rule 11.04 of the GEM Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the period:

| Name of Director | Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group | Nature of interest of the Director in the entity |
|--------------------------|---|---|--|
| Cao Zhong | Shougang Grand (Note 1) | Cultural recreation content provision (Note 2) | Vice chairman and managing director |
| Chen Zheng | Shougang Grand (Note 1) | Cultural recreation content provision (Note 2) | Managing director of operations |
| Leung Shun Sang, Tony | Shougang Grand (Note 1) | Cultural recreation content provision (Note 2) | Director |

Notes:

1. Shougang Grand indirectly held approximately 50.74% interests in the Company as at 30 September 2007.
2. Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(Continued)*

Save as disclosed above, during the nine months ended 30 September 2007, none of the Directors or the management shareholders of the Company or any of its subsidiaries or any of their respective associates, had any interests in a business which competed or may compete with the business of the Group.

AUDIT COMMITTEE

The Audit Committee has reviewed the 2007 third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company on 7 November 2007 for, amongst other things, reviewing the third quarterly results of the Group for the period ended 30 September 2007.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board

Chen Zheng

Managing Director

Hong Kong, 13 November 2007