



環球數碼創意控股有限公司*

Global Digital Creations Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8271



THIRD QUARTERLY REPORT
2008

* 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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 (*Chairman*)
Chen Zheng (*Managing Director*)
Jin Guo Ping (*Deputy Managing Director*)
Lu Yi, Gloria (*Deputy Managing Director*)
Leung Shun Sang, Tony (*Non-executive Director*)
Kwong Che Keung, Gordon
(*Independent Non-executive Director*)
Hui Hung, Stephen
(*Independent Non-executive Director*)
Japhet Sebastian Law
(*Independent Non-executive Director*)

Executive Committee

Cao Zhong (*Chairman*)
Chen Zheng
Jin Guo Ping
Lu Yi, Gloria

Audit Committee

Kwong Che Keung, Gordon (*Chairman*)
Hui Hung, Stephen
Japhet Sebastian Law

Nomination Committee

Cao Zhong (*Chairman*)
Leung Shun Sang, Tony (*Vice Chairman*)
Kwong Che Keung, Gordon
Hui Hung, Stephen
Japhet Sebastian Law

Remuneration Committee

Leung Shun Sang, Tony (*Chairman*)
Cao Zhong (*Vice Chairman*)
Kwong Che Keung, Gordon
Hui Hung, Stephen
Japhet Sebastian Law

Compliance Officer

Chen Zheng

Company Secretary

Cheng Man Ching

Qualified Accountant

Chiu Ming Kin

CORPORATE INFORMATION *(Continued)*

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	Rooms 1101-4, 11th Floor Harcourt House 39 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 financial results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 30 September 2008 with comparative figures for the corresponding periods in 2007. These quarterly results have been reviewed by the Company's Audit Committee.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the periods ended 30 September 2008

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Revenue	3	42,837	26,507	74,079	66,616
Cost of sales	4	(30,669)	(11,789)	(65,922)	(29,969)
Gross profit		12,168	14,718	8,157	36,647
Other income	5	373	3,424	2,549	12,471
Distribution costs and selling expenses		(1,273)	(1,254)	(5,752)	(3,794)
Administrative expenses		(13,495)	(12,855)	(41,298)	(37,631)
Finance costs	6	(491)	(536)	(2,024)	(3,966)
Share of loss of an associate		(8)	–	(670)	–
Other expense	7	–	–	(22,202)	–
Gain on dilution of interest in a subsidiary	8	–	385	–	40,680
(Loss) profit before tax		(2,726)	3,882	(61,240)	44,407
Income tax credit	9	2,246	–	2,246	–
(Loss) profit for the period		(480)	3,882	(58,994)	44,407
Attributable to:					
Equity holders of the Company		(2,488)	2,220	(57,068)	43,140
Minority interests		2,008	1,662	(1,926)	1,267
		(480)	3,882	(58,994)	44,407
		HK cents	HK cents	HK cents	HK cents
(Loss) earnings per share:	11				
Basic		(0.19)	0.17	(4.41)	4.00
Diluted		N/A	0.17	N/A	3.87

NOTES:

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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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 2007. In the current period, the Group started to share box office receipts. Details of the accounting policy are described below.

Share of box office receipts

Share of box office receipts is recognised when the digital motion pictures are exhibited using the digital cinema equipment sold by the Group and the right to receive a certain percentage on the relevant box office receipts has been established.

In the current period, the Group has applied, for the first time, a number of amendments and new 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 2008. 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, revised or amended standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

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

² Effective for annual periods beginning on or after 1 July 2009

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

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

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company (the "Directors") are in the process of assessing the impact of the other new, revised or amended standards or interpretations on the results and the financial position of the Group.

3. REVENUE

Revenue represented the amounts received and receivable for goods sold by the Group to outside customers (less returns and trade discounts), computer graphic ("CG") creation and production income, revenue arising on training fee, distribution of digital motion pictures, share of box office receipts, technical service income 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	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods	21,861	7,127	30,988	19,583
CG creation and production income	13,383	16,518	24,681	38,770
Training fee	3,768	2,652	9,792	6,913
Receipts from distribution of digital motion pictures	1,775	–	2,996	–
Share of box office receipts	1,372	–	3,796	–
Technical service income	678	148	1,826	1,288
Rental income from equipment leasing	–	62	–	62
	42,837	26,507	74,079	66,616

4. COST OF SALES

Cost of sales for the three months and the nine months ended 30 September 2008 included amortisation of intangible asset of approximately HK\$7,256,000 and HK\$21,354,000, respectively, in respect of the contracted rights acquired to share a specified percentage of the box office receipts.

5. OTHER INCOME

Other income for the nine months ended 30 September 2007 included waiver of interest payable on other loan from Win Real Management Limited and waiver of rental payable to a landlord, 深圳大學文化科技服務有限公司, in the amounts of approximately HK\$4,156,000 and HK\$3,228,000, respectively.

6. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September 2008	2007	30 September 2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Loan from a fellow subsidiary	178	263	1,225	3,155
Bank borrowing wholly repayable within five years	310	223	752	608
Loan from another related party	3	34	31	125
Finance leases	–	16	16	75
Others	–	–	–	3
	491	536	2,024	3,966

7. OTHER EXPENSE

Other expense for the nine months ended 30 September 2008 represents an one-off payment for film distribution rights in the People's Republic of China (the "PRC"; for the purpose of this report, does not include Hong Kong, Macau and Taiwan) based on an agreement with China Film Group Corporation, the majority shareholder of an associate of the Group, during the period.

8. GAIN ON DILUTION OF INTEREST IN A SUBSIDIARY

The amount 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 upon exercise of share options of GDC Technology during the period.

9. INCOMETAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

The income tax credit comprises:

Current tax:

Refund of PRC Enterprise				
Income Tax ("EIT")	2,246	–	2,246	–

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 PRC and being approved by the relevant PRC tax authority, some subsidiaries in the PRC are eligible for an exemption from PRC EIT 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 in the next three years. For both periods, no provision for PRC EIT had been made in the unaudited condensed consolidated income statement as those PRC subsidiaries were either exempted from PRC EIT or did not have assessable profit for the period.

10. DIVIDEND

The Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2008 and 2007.

11. (LOSS) EARNINGS PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

(Loss) earnings:

(Loss) earnings for the purpose of basic and diluted (loss) earnings per share ((loss) profit for the period attributable to equity holders of the Company)

	(2,488)	2,220	(57,068)	43,140
	'000	'000	'000	'000

Number of shares:

Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share

	1,295,246	1,279,427	1,295,246	1,078,233
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Effect of dilutive potential ordinary shares:

– share options	–	16,931	–	35,436
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Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share

	1,295,246	1,296,358	1,295,246	1,113,669
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No diluted loss per share has been calculated for the three months and the nine months 30 September 2008 as the exercise of the share options would result in a decrease in the loss per share.

12. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											Total HK\$'000	
	Share capital HK\$'000	Share premium account HK\$'000	Capital contribution reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Accum- lated (losses) profits HK\$'000	Total reserve of a subsidiary HK\$'000	Share options reserve of a subsidiary HK\$'000		Minority interests HK\$'000
At 1 January 2008	12,952	589,670	445	40,271	680	39,261	3,066	(46,366)	(281,943)	358,036	15,988	61,167	435,191
Exchange differences on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	18,825	-	-	18,825	-	469	19,294
Loss for the period	-	-	-	-	-	-	-	-	(57,068)	(57,068)	-	(1,926)	(58,994)
Total recognised income (expense) for the period	-	-	-	-	-	-	18,825	-	(57,068)	(38,243)	-	(1,457)	(39,700)
Sub-total	12,952	589,670	445	40,271	680	39,261	21,891	(46,366)	(339,011)	319,793	15,988	59,710	395,491
Reduction of share premium account (Note)	-	(589,670)	-	589,670	-	-	-	-	-	-	-	-	-
Elimination of accumulated losses (Note)	-	-	-	(384,060)	-	-	-	-	384,060	-	-	-	-
Cancellation of share options granted by a subsidiary	-	-	-	-	-	-	-	-	145	145	(145)	-	-
At 30 September 2008	12,952	-	445	245,681	680	39,261	21,891	(46,366)	45,194	319,938	15,843	59,710	395,491
At 1 January 2007	8,008	92,438	445	40,271	680	5,590	(2,205)	-	(300,253)	(156,026)	317	-	(154,709)
Exchange differences on translation of foreign operations 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)
Shares 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

Note: A special resolution was passed by shareholders of the Company at the Special General Meeting of the Company held on 6 June 2008 and completed thereafter that an amount of approximately HK\$589,670,000 standing to the credit of the share premium account of the Company as at 31 December 2007 has been reduced with the credit arising therefrom being transferred to the contributed surplus of the Company. Upon the said transfer became effective, an amount of approximately HK\$384,060,000 standing to the credit of the contributed surplus of the Company has been applied to eliminate the accumulated losses of the Company as at 31 December 2007. It has complied with the requirement of section 46(2) of The Companies Act 1981 of Bermuda (as amended). Details of which are set out in the circular of the Company dated 9 May 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue for the nine months ended 30 September 2008 was approximately HK\$74,079,000 when compared with that of approximately HK\$66,616,000 for the corresponding period in the year 2007, represented an increase of approximately 11%. The increase was mainly attributable to the increase in sales of goods and training fee by approximately HK\$11,405,000 and HK\$2,879,000, respectively, share of box office receipts from the deployment of digital cinema network in the People's Republic of China (the "PRC"; for the purpose of this report, does not include Hong Kong, Macau and Taiwan) cooperated by China Film Group Corporation ("CFG") and the Group (the "PRC Digital Cinema Project") of approximately HK\$3,796,000 and receipts from distribution of digital motion pictures of approximately HK\$2,996,000 during the period, netting off decrease in the computer graphic ("CG") creation and production income by approximately HK\$14,089,000.

Cost of sales for the nine months ended 30 September 2008 amounted to approximately HK\$65,922,000 which, comparing with that of approximately HK\$29,969,000 for the corresponding period in the year 2007, represented an increase of approximately 120%. The increase was mainly attributable to amortisation of intangible asset of the PRC Digital Cinema Project of approximately HK\$21,354,000 and increase in cost of goods sold by approximately HK\$9,204,000.

The Group made a gross profit of approximately HK\$8,157,000 for the nine months ended 30 September 2008, representing a gross profit margin of approximately 11%. Comparing with the gross profit margin of approximately 55% for the corresponding period in the year 2007, the decrease was mainly due to inclusion of amortisation of intangible asset in the amount of cost of sales.

Other income for the nine months ended 30 September 2008 amounted to approximately HK\$2,549,000 (2007: HK\$12,471,000), representing a decrease of approximately 80%. The decrease was mainly due to the amount for the corresponding period in the year 2007 included an one-off income upon waiver of interest payable on other loan and rental payable amounted to approximately HK\$4,156,000 and HK\$3,228,000, respectively, and decrease in interest income by approximately HK\$2,413,000 during the period.

Administrative expenses for the nine months ended 30 September 2008 amounted to approximately HK\$41,298,000 (2007: HK\$37,631,000), representing an increase of approximately 10%. The increase was as a result of growth in the operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL OVERVIEW *(Continued)*

Finance costs for the nine months ended 30 September 2008 amounted to approximately HK\$2,024,000 (2007: HK\$3,966,000), representing a decrease of approximately 49%. The decrease was mainly attributable to decrease in interest to a fellow subsidiary by approximately HK\$1,930,000.

Other expense of approximately HK\$22,202,000 (2007: Nil) for the nine months ended 30 September 2008 represented an one-off payment for film distribution rights in the PRC based on an agreement with CFGC.

Gain on dilution of interest in a subsidiary of approximately HK\$40,680,000 for the nine months ended 30 September 2007 represented (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 upon exercise of share options of GDC Technology during the period.

Overall, the Group recorded loss of approximately HK\$57,068,000 for the nine months ended 30 September 2008 attributable to equity holders of the Company, when compared with that profit of approximately HK\$43,140,000 for the corresponding period in the year 2007.

BUSINESS REVIEW AND OUTLOOK

Digital content distribution and exhibitions

During the three months ended 30 September 2008, revenue from digital content distribution and exhibitions division achieved approximately HK\$23,911,000 when compared with that of approximately HK\$12,699,000 for the first half of the year 2008, represented an increase of approximately 88%. This significant improvement was mainly due to the increase in orders for digital 3D cinema equipment during the period by the exhibitors in the PRC and rest of Asia for the screening of a Hollywood 3D blockbuster, "Journey to the Center of the Earth". Besides, at least ten 3D titles are planned for release in the year 2009, the demand for digital 3D cinema equipment would continue to increase.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Digital content distribution and exhibitions (Continued)

In late September, several Hollywood studios finally signed the long-sought Virtual Print Fees (“VPF”) deals with the major exhibitors in the United States for 20,000 digital cinemas. Together with the new VPF deal signed by a NASDAQ listed company, which is the largest (VPF based) digital cinema deployment entity, with five Hollywood studios for the second phase of deployment of another 10,000 digital cinemas in the United States, and the VPF deal signed by a leading digital cinema service company in Europe with six Hollywood studios for the deployment of 8,000 digital cinemas there, it is expected the deployment of digital cinemas worldwide has yet to begin.

In anticipation of the imminent digital cinema transition in the United States, the Group signed with the two largest cinema service providers to expand its servicing network throughout the United States. Both of the service providers are industry heavy weight and their support will go a long way to help the Group build a trusted servicing network for its customers in the United States.

The Group continues to deliver DSR™ range of products designed for the exhibitors around the world and develop new products that aim to meet more than the standard Digital Cinema Initiative (“DCI”) specifications, such as the new digital cinema product – True 3D™ Digital Cinema System. At present, only the new True 3D™ server can meet the preferred requirement of the DCI stereoscopic specifications and can differentiate the Group’s digital cinema technology from its competitors.

In addition, the Group diversified certain DSR™ products to other markets which are not affected by the VPF deal, such as digital signage. During this period, the Group installed networked digital signage solutions to new customers in Asia including flagship cinema multiplexes in Hong Kong and major cities in the PRC.

On 22 September 2008, the Group signed a supplemental agreement with CFGC. Both parties agreed (i) the Group would sell approximately 450 units of digital cinema equipment invested to the sino-foreign joint venture, 中影首鋼環球數碼數字影院建設(北京)有限公司 CFGDC Digital Cinema Company Ltd. (“CFGDC”), of which the Group owns 49% equity interest; (ii) CFGDC would increase its registered capital; and (iii) to provide respective guarantees to assist CFGDC to secure financing of not exceeding US\$40 million (equivalent to approximately HK\$312 million). Besides, CFGC further agreed to pay to CFGDC a equipment usage fee equivalent to all of the operating profits of its subsidiary, 中影集團數字電影院線有限公司 China Film Digital, Ltd. and all its savings from using digital format for the films distribution. Details of which are set out in the announcement of the Company dated 24 September 2008. As mentioned in the announcement of the Company dated 7 November 2008, the Group is in the course of further negotiation with CFGC regarding aforesaid transactions.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG creation and production

Due to the slow down of global economy since late 2007, several clients postponed the commencement of their production plans, it resulted in lower revenue for the CG creation and production division during this period. Most of these projects did eventually commenced near the end of second quarter of the year 2008, and this division resumed profitable for this quarter. This division is expected to be profitable for the whole year 2008 as well.

Besides, the Group is actively developing new clients and has secured several projects with some world leading entertainment brands for animated television series and theatrical movies. The Group is also in discussion of co-production opportunities with several large North American and European children's entertainment content development and broadcasting companies. Many existing and prospective clients have expressed the desire for long term and multi-project relationship with the Group based on the demonstrated track record of offering reliable, cost effective, high quality CG production services to international market.

To deal with the expected growth in orders, the Group established a subsidiary in the city of Chongqing, its staff recruitment and installation of production facilities installation have been completed. The production capacity has been put into trial run and scheduled to be formed during the fourth quarter of the year 2008.

Following the success of the Group's second full-length feature CGI film, "Happy Little Submarines", a co-production with a Hollywood leading animation studio, the Group's co-produced animated television series, "Dive Olly Dive" was also released on China Central Television (CCTV) since September 2008. This film and television series generated revenue of approximately HK\$2,996,000 for the nine months ended 30 September 2008. The Group will actively develop its original content creation business through different forms, including sole investment and co-production, in order to generate revenue from distribution and intellectual property sales in addition to the existing CG creation and production revenue.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW AND OUTLOOK *(Continued)*

CG training

CG training division continues its strategy towards professionalism. Through continued improvement in the management system and infrastructure, comprehensive training materials for different categories, including CG animation and games, and open new training courses, the Group maintained a leading position in the CG professional training domain in the PRC. This division recorded steady revenue growth of approximately 42% for the nine months ended 30 September 2008, comparing with the corresponding period in the year 2007.

With the encouragement from the PRC government on subcontracting foreign CG projects and the development of domestic CG and game industries, many international well-know companies set up production centres in the PRC, the demand for equipped people in this field increased. In addition to the existing training courses on the knowledge of CG production, the Group opens a new professional training programme for the game industry, including comprehensive training materials and case studies, in line with the market needs. The Group also approaches several companies in the different kinds of CG animation and game industries to tailor make some advanced courses for upgrading their employees in accordance with their positions, with an aim to enhance the production capacity of those companies.

Besides, the Group cooperates with several famous high schools in the PRC for “Skill and Qualification” training programme for their students to achieve their aim to have “One Course, Several Certificates” and to train up their practical production skills ready for the employment immediate after graduation.

In addition to the Group’s training centres in Shanghai and Shenzhen and direct operation training sites in Chongqing and Wuxi, the Group plans to set up more direct operation training sites to further expand its training network throughout the PRC and market shares there.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the nine months ended 30 September 2008 (2007: 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 2008 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 2008 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 30.09.2008
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	8,008,200	4,900,000	12,908,200	1.00%
Chen Zheng	Beneficial owner	8,718,200	4,900,000	13,618,200	1.05%
Jin Guo Ping	Beneficial owner	-	8,008,200	8,008,200	0.62%
Lu Yi, Gloria	Beneficial owner	-	12,000,000	12,000,000	0.93%
Leung Shun Sang, Tony	Beneficial owner	10,008,200	4,900,000	14,908,200	1.15%
Kwong Che Keung, Gordon	Beneficial owner	800,820	490,000	1,290,820	0.10%
Hui Hung, Stephen	Beneficial owner	800,820	490,000	1,290,820	0.10%

* 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 30.09.2008
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	-	22,868,000	22,868,000	1.99%
Chen Zheng	Beneficial owner	-	18,368,000	18,368,000	1.60%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	19,368,679	27,646,679	2.40%

* 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 30.09.2008
		Interests in shares	Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Chen Zheng	Beneficial owner	8,533,334	1,650,000	10,183,334	4.38%
Lu Yi, Gloria	Beneficial owner	-	12,000,000	12,000,000	5.16%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	1,653,333	3,783,333	1.63%
Kwong Che Keung, Gordon	Beneficial owner	1,706,667	165,000	1,871,667	0.80%
Hui Hung, Stephen	Beneficial owner	-	165,000	165,000	0.07%

* *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 2008, 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 2008.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 September 2008, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies had long positions of 5% or more in the shares of the Company ("Notifiable Interest") 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 total issued share capital of the Company as at 30.09.2008
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	680,904,023 <i>(Note)</i>	52.57%
Wheeling Holdings Limited ("Wheeling")	Interests of controlled corporations	680,904,023 <i>(Note)</i>	52.57%
Shougang Grand	Interests of controlled corporations	680,904,023 <i>(Note)</i>	52.57%
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	656,360,023 <i>(Note)</i>	50.67%
Keywise Capital Management (HK) Limited	Investment manager	176,824,000	13.65%
Keywise Greater China Opportunities Master Fund	Beneficial owner	113,030,000	8.73%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(Continued)*

Long positions in the shares of the Company *(Continued)*

Note: Shougang Grand indicated in its disclosure form dated 3 April 2008 (being the latest disclosure form filed up to 30 September 2008) that as at 1 April 2008, its interests included 656,360,023 shares of the Company held by Upper Nice, an indirectly wholly-owned subsidiary of Shougang Grand. Upper Nice was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Shougang Grand.

Shougang Holding indicated in its disclosure form dated 3 April 2008 (being the latest disclosure form filed up to 30 September 2008) that as at 1 April 2008, its interests included 680,904,023 shares of the Company held by Wheeling, a wholly-owned subsidiary of Shougang Holding. Wheeling was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure form filed by Shougang Holding. As indicated in the said disclosure form, Shougang Grand was held as to approximately 37.40% by Wheeling and its interest was included in the interests held by Wheeling.

Save as disclosed above, as at 30 September 2008, 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 granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme during the nine months ended 30 September 2008. Details of movement in the share options under the Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company						Exercise price per share
	At the beginning of the period	Transferred to other category during the period	Transferred from other category during the period	At the end of the period	Date of grant	Exercise period	
Directors of the Company							
Cao Zhong	4,900,000	-	-	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Chen Zheng	4,900,000	-	-	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Jin Guo Ping	8,008,200	-	-	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Lu Yi, Gloria	12,000,000	-	-	12,000,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Leung Shun Sang, Tony	4,900,000	-	-	4,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Kwong Che Keung, Gordon	490,000	-	-	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
Bu Fan Xiao	800,820	(800,820) ¹	-	-	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	490,000	(490,000) ¹	-	-	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>1,290,820</u>	<u>(1,290,820)</u>	<u>-</u>	<u>-</u>			
Hui Hung, Stephen	490,000	-	-	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>36,979,020</u>	<u>(1,290,820)</u>	<u>-</u>	<u>35,688,200</u>			
Employees of the Group							
	2,300,000	-	-	2,300,000	22.03.2007	22.03.2007 – 21.03.2010	HK\$1.07
	2,262,000	-	-	2,262,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	9,900,000	-	-	9,900,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>14,462,000</u>	<u>-</u>	<u>-</u>	<u>14,462,000</u>			
Other participants							
	2,500,820	-	800,820 ¹	3,301,640	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	1,781,000	-	-	1,781,000	04.04.2007	04.04.2007 – 03.04.2010	HK\$1.52
	-	-	490,000 ¹	490,000	30.10.2007	30.10.2007 – 29.10.2012	HK\$2.75
	<u>4,281,820</u>	<u>-</u>	<u>1,290,820</u>	<u>5,572,640</u>			
	<u>55,722,840</u>	<u>(1,290,820)</u>	<u>1,290,820</u>	<u>55,722,840</u>			

Note:

- The share options were held by Professor Bu Fan Xiao who resigned as a Director of the Company during the period and such share options were re-classified from the category of "Director of the Company" to "Other participants" during the period. According to the Scheme, such share options shall lapse on the expiry of the three months period following the date of cessation as a Director of the Company. Accordingly, such share options shall lapse on 1 December 2008.

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, exercised or cancelled in accordance with the terms of the GDC Tech Scheme during the nine months ended 30 September 2008. Details of movement in the share options under the GDC Tech Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of GDC Tech			Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Lapsed during the period	At the end of the period			
Directors of the Company						
Cao Zhong	1,650,000	-	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
Chen Zheng	1,650,000	-	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
Lu Yi, Gloria	12,000,000 ¹	-	12,000,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
Leung Shun Sang, Tony	3,333 ² 1,650,000	-	3,333 1,650,000	29.09.2006 02.11.2007	29.09.2006 – 28.09.2009 02.11.2007 – 01.11.2012	HK\$0.145 HK\$2.000
	<u>1,653,333</u>	<u>-</u>	<u>1,653,333</u>			
Kwong Che Keung, Gordon	165,000	-	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
Bu Fan Xiao	165,000	(165,000) ³	-	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
Hui Hung, Stephen	165,000	-	165,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
	<u>17,448,333</u>	<u>(165,000)</u>	<u>17,283,333</u>			
Employees of the Group						
	4,563,332	(500,000) ⁴	4,063,332	05.10.2006	05.10.2006 – 04.10.2009	HK\$0.145
	1,650,000	-	1,650,000	02.11.2007	02.11.2007 – 01.11.2012	HK\$2.000
	<u>6,213,332</u>	<u>(500,000)</u>	<u>5,713,332</u>			
Other participants						
	1,173,333	-	1,173,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	<u>24,834,998</u>	<u>(665,000)</u>	<u>24,169,998</u>			

SHARE OPTIONS *(Continued)*

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

Notes:

1. *The number of share options granted to Ms. Lu Yi, Gloria on 2 November 2007 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of the Company and Shougang Grand on 30 October 2007 respectively.*
2. *The number of share options granted to Mr. Leung Shun Sang, Tony on 29 September 2006 exceeded the individual limit of 1% of the shares of GDC Tech then in issue and was approved by the shareholders of the Company and Shougang Grand on 19 September 2006 respectively.*
3. *The share options were held by Professor Bu Fan Xiao who resigned as a Director of the Company during the period and such share options were lapsed on 1 September 2008.*
4. *The share options were held by a grantee who ceased to be an employee of the Group during the period and such share options were lapsed on 28 June 2008.*

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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, the controlling shareholder of the Company, indirectly held approximately 52.57% interests in the Company as at 30 September 2008.*
2. *Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.*

Save as disclosed above, during the nine months ended 30 September 2008, none of the Directors or the controlling 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 2008 third quarterly results of the Group. A meeting of the Audit Committee was held with the management of the Company on 5 November 2008 for, amongst other things, reviewing the third quarterly results of the Group for the periods ended 30 September 2008.

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

Cao Zhong

Chairman

12 November 2008