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**If you are in doubt** as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

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**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)

**Response document relating to  
voluntary conditional share exchange offer by  
DBS Asia Capital Limited  
on behalf of  
Upper Nice Assets Ltd., a wholly-owned subsidiary of  
Shougang Concord Grand (Group) Limited, to acquire all the issued  
shares of, and a voluntary conditional cash offer to cancel all the outstanding options of,  
Global Digital Creations Holdings Limited  
(other than those already owned by the Offeror and parties acting in concert with it)**

**Financial Adviser to Global Digital Creations Holdings Limited**



**博大資本國際有限公司**  
**Partners Capital International Limited**

**Independent Financial Adviser to the Independent Board Committee**



**FIRST SHANGHAI CAPITAL LIMITED**

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A letter from First Shanghai containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 24 to 53 of this document. A letter from the Independent Board Committee of Global Digital Creations Holdings Limited containing its recommendations in respect of the Offers is set out from pages 22 to 23 of this document.

27 January 2005

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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## EXPECTED TIMETABLE

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Offers commence .....	Thursday, 13 January 2005
Posting date of the Offer Document.....	Thursday, 13 January 2005
Latest date for posting of this document.....	Thursday, 27 January 2005
First Closing Date ( <i>Note 1</i> ) .....	4:00 p.m. on Tuesday, 15 February 2005
Teletext announcement of the results of the Offers, as at the First Closing Date, through the Stock Exchange .....	7:00 p.m. on Tuesday, 15 February 2005
Announcement of the result of the Offers, as at the First Closing Date, in the newspapers in Hong Kong .....	Wednesday, 16 February 2005
Latest date for posting of share certificates and remittances to holders of GDC Shares and GDC Options respectively who accept the Offers by the First Closing Date, assuming the Offers become or are declared unconditional on such date ( <i>Note 2</i> ) .....	Friday, 25 February 2005
Latest time by which the Offers can be declared unconditional as to acceptance ( <i>Note 3</i> ) .....	Midnight, Monday, 14 March 2005

*Notes:*

1. In accordance with the Takeovers Code, where the offeree document is posted after the date on which the Offer Document is posted, the Offers must remain open for acceptance for at least 28 days following the date on which the Offer Document was posted and 4:00 p.m. on Tuesday, 15 February 2005 is the latest time for acceptance.
2. Share certificates and/or remittances in respect of the GDC Shares and GDC Options (as the case may be) tendered under the Offers will be posted by ordinary post to holders of GDC Shares and GDC Options (as the case may be) accepting the Offers at his/her/its own risks as soon as possible, but in any event within 10 days from the later of the date of (i) receipt by the Registrar of GDC in Hong Kong, or the company secretary of GDC, as the case may be, of all the relevant documents to render the acceptance under the Offers complete and valid, and (ii) when the Offers become unconditional.
3. In accordance with the Takeovers Code, where the Offers become or are declared unconditional, they should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offers are closed to those holders of GDC Shares and GDC Options who have not accepted the Offers. In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or are declared unconditional as to acceptances after midnight (Hong Kong time) on the 60th day after the day the Offer Document is posted. Accordingly, unless the Offers have previously become or are declared unconditional as to acceptances, the Offers will lapse on midnight, Monday, 14 March 2005 unless extended with the consent of the Executive.
4. Acceptance of the Offers shall be irrevocable and incapable of being withdrawn, except as permitted under the Takeovers Code.

**All time references contained in this document refer to Hong Kong time.**

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## DEFINITIONS

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*In this document, the following expressions have the following meanings, unless the context otherwise requires:*

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Asia Investment Capital”	Asia Investment Capital Limited (currently known as Goldbond Capital (Asia) Limited), a licensed corporation to carry out types 1 and 6 regulated activities under the SFO
“associates”	has the meaning ascribed thereto in the GEM Rules
“Board”	the board of Directors
“Cheung Kong”	Cheung Kong (Holdings) Limited
“CM-CCS”	CM-CCS Securities Limited (currently known as China Merchants Securities (HK) Co., Limited), a deemed licensed corporation for types 1, 4, 6, 7 and 9 regulated activities under the SFO
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Conditions”	the conditions of the Offers
“DBS Asia”	DBS Asia Capital Limited, a deemed licensed corporation to carry out types 1, 4, 6 and 9 regulated activities under the SFO
“Directors”	the director(s) of GDC
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Closing Date”	Tuesday, 15 February 2005, and has the meaning ascribed to it in the Takeovers Code
“First Shanghai”	First Shanghai Capital Limited, a deemed licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, who has been appointed as the independent financial adviser to give advice to the Independent Board Committee in respect of the Offers
“GDC” or “Company”	Global Digital Creations Holdings Limited, a company incorporated in Bermuda, the securities of which are listed on the GEM
“GDC Group”	GDC and its subsidiaries

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## DEFINITIONS

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“GDC Independent Shareholders”	GDC Shareholders excluding Mr. Raymond Dennis Neoh, Mr. Anthony Francis Neoh, Dr. David Deng Wei, Mr. Stephen Scharf and parties acting in concert with them and their respective associates
“GDC Option(s)”	share options which remain outstanding as at the Latest Practicable Date and were granted by GDC to (i) eligible participants conferring on the grantee thereof the right to subscribe for new GDC Share at an exercise price of HK\$0.44 per GDC Share pursuant to a share option scheme of GDC adopted on 18 July 2003 and (ii) the Sotas Limited under the Sotas Option
“GDC Optionholder(s)”	holder(s) of GDC Option(s)
“GDC Share(s)”	share(s) of HK\$0.01 each in the capital of GDC
“GDC Shareholder(s)”	holder(s) of GDC Share(s)
“GDC Share Option Scheme”	Share option scheme of GDC approved by shareholders’ resolution passed at its special general meeting held on 18 July 2003
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Rules”	the Rules Governing the Listing of Securities on GEM
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IDMT”	IDMT (Shenzhen) Limited* (環球數碼媒體科技研究(深圳)有限公司), a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of the Company, which is engaged in the provision of CG training courses and the development of multimedia software and hardware and the provision of related technical consultancy services
“Independent Board Committee”	an independent board committee of the Company appointed to advise the GDC Independent Shareholders and the GDC Optionholders in respect of the Offers, which comprises the three independent non-executive Directors, being Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Paul Kan Yuen Chiu
“Joint Announcement”	joint announcement dated 19 November 2004 made by SCG and GDC in relation to the Offers
“Kingsway Capital”	Kingsway Capital Limited, a licensed corporation to carry out type 6 regulated activity under the SFO

\* for identification purposes only

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## DEFINITIONS

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“Last Trading Day”	29 October 2004, being the last trading day prior to the suspension of trading in the GDC Shares on 1 November 2004
“Latest Practicable Date”	25 January 2005, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offers”	the Share Exchange Offer and the Option Offer
“Offer Document”	the offer document dated 13 January 2005 in respect of the Offers made by DBS Asia on behalf of the Offeror to GDC Shareholders and GDC Optionholders in accordance with the Takeovers Code containing, inter alia, details of the Offers, the acceptance and transfer forms, and the terms and conditions of the Offers
“Offeror”	Upper Nice Assets Ltd., an indirect wholly-owned subsidiary of SCG
“Option Offer Price”	HK\$0.01 per GDC Option
“Option Offer”	the voluntary conditional cash offer for the GDC Options
“Overseas Chinese Town”	Overseas Chinese Town (Hong Kong) Co., Ltd, a wholly owned subsidiary of Overseas Chinese Town Holding Company* (華僑城集團公司) and an investment management company which principal businesses include paper packaging, household electronic appliances, hotel and tourism. Overseas Chinese Town (Hong Kong) Co., Ltd is an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or its subsidiaries or an associate of any of them for the purpose of the GEM Rules. Overseas Chinese Town Holding Company is wholly owned by State Assets Regulatory Commission of PRC* (中國國有資產監督管理委員會)
“PRC”	the People’s Republic of China and for the purpose of this document shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Registrar”	Standard Registrars Limited at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, being GDC’s branch registrar in Hong Kong

\* for identification purposes only

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## DEFINITIONS

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“Relevant Period”	the period commencing from six calendar months preceding 19 November 2004, the date of the Joint Announcement, and up to and including the Latest Practicable Date
“SCG”	Shougang Concord Grand (Group) Limited, a company incorporated in Bermuda, the securities of which are listed on the Main Board of the Stock Exchange
“SCG Group”	SCG and its subsidiaries
“SCG Share(s)”	share(s) of HK\$0.01 each in the capital of SCG
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGD”	Singapore dollars, the lawful currency of Singapore. For the purposes of this document, amounts denominated in SGD are converted into Hong Kong dollars as HK\$4.7=SGD1.0
“Share Exchange Offer”	the voluntary conditional share exchange offer of 3 new SCG Shares for every 10 GDC Shares
“Shougang Holding”	Shougang Holding (Hong Kong) Limited, the controlling shareholder of SCG which is beneficially interested in approximately 47.45% of the issued share capital of SCG under the register kept by SCG
“Sotas Options”	share option granted by GDC to Sotas Limited on 5 June 2003 by which Sotas Limited is entitled to acquire 8,331,615 new GDC Shares from GDC within 36 months from 4 August 2003, the date of listing of the GDC Shares, at an aggregate exercise price of US\$600,000
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Wheeling Holdings”	Wheeling Holdings Limited, a wholly-owned subsidiary of Shougang Holding and is interested in approximately 45.83% in the issued share capital of SCG under the register kept by SCG

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## DEFINITIONS

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“Zhanjiang Dong Hai”	Zhanjiang Dong Hai Long Teng Enterprise Company Limited* (湛江市東海龍騰實業有限公司), a company established in the PRC engaging in enterprise businesses including, inter alia, trading home appliances, building materials and chemical raw materials and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or its subsidiaries or an associate of any of them for the purpose of the GEM Rules
“HK\$” and “cents”	Hong Kong Dollars and cents respectively, the lawful currency of Hong Kong
“%”	per cent.

\* *for identification purposes only*

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## LETTER FROM THE BOARD

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### 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)

*Executive Directors:*

Mr. Raymond Dennis Neoh

*Non-executive Director:*

Mr. Anthony Francis Neoh (*Chairman*)

Dr. David Deng Wei (*Vice Chairman*)

Mr. Stephen Scharf

Mr. Zhang Dong Sheng (*alternate director to*

*Dr. David Deng Wei*)

*Independent non-executive Directors:*

Mr. Gordon Kwong Che Keung

Professor Japhet Sebastian Law

Mr. Paul Kwan Yuen Chiu

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of business:*

Suite 1804-5, Hutchison House

10 Harcourt Road

Central

Hong Kong

27 January 2005

*To the GDC Independent Shareholders and GDC Optionholders*

Dear Sir or Madam,

**Voluntary conditional share exchange offer by  
DBS Asia Capital Limited  
on behalf of  
Upper Nice Assets Ltd., a wholly-owned subsidiary of  
Shougang Concord Grand (Group) Limited, to acquire all the issued  
shares of, and a voluntary conditional cash offer to cancel all the outstanding options of,  
Global Digital Creations Holdings Limited  
(other than those already owned by the Offeror and parties acting in concert with it)**

#### INTRODUCTION

Reference is made to the Joint Announcement. As stated in the Joint Announcement, on 1 November 2004, SCG approached the board of GDC for a possible investment opportunity and on 15 November 2004, the Offeror proposed to make a voluntary conditional offer to acquire all the issued GDC Shares and cancel all the outstanding GDC Options (other than those already owned by the Offeror and parties acting in concert with it). As at the Latest Practicable Date, the Offeror and the parties acting in concert with it are not beneficial owners of any GDC Shares or GDC Options. The Offeror and its concert parties have not traded in any GDC Shares in the six-month period before the date of the Joint Announcement.

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## LETTER FROM THE BOARD

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The Board comprises one executive Director, three non-executive Directors and three independent non-executive Directors.

Mr. Raymond Dennis Neoh, the chief executive officer and an executive Director, through Upflow Holdings Limited, and Mr. Anthony Francis Neoh, the chairman and a non-executive Director, who together own approximately 42.34% of the existing issued share capital of GDC, have jointly provided an irrevocable undertaking to accept the Share Exchange Offer in respect of the above shareholding and to procure GDC Shareholders holding more than 50% of the existing issued share capital of GDC (including their shareholding of 42.34%) to accept the Share Exchange Offer. Save as disclosed, none of the other Directors, in aggregate holding approximately 2.7% of the existing issued share capital of GDC and 14,300,000 GDC Options, have given any undertaking to accept or not to accept the Share Exchange Offer or the Option Offer up to the Latest Practicable Date. Mr. Raymond Dennis Neoh and Mr. Anthony Francis Neoh also had made various shareholder advances to GDC during the last two years.

Dr. David Deng Wei, the vice chairman and a non-executive Director. He is interested in approximately 2.59% of the existing issued share capital of GDC and holds 8,000,000 GDC Options. Bright Oceans Corporation (HK) Limited, a company controlled by Dr. David Deng Wei, has made various shareholder advances to GDC during the past two years.

Mr. Stephen Scharf, a non-executive Director. He is beneficially interested in approximately 0.02% of the existing issued share capital of GDC and holds 2,100,000 GDC Options. He had also provided advice, through his law firm, to GDC on matters in American Law during the past two years.

Accordingly, they are not considered independent to give advice in respect of the Offers.

The Independent Board Committee, comprising the three independent non-executive Directors, being Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Paul Kan Yuen Chiu, has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to consider the terms of the Offers and to make a recommendation to the GDC Independent Shareholders and the GDC Optionholders in relation to the Offers. Each of Mr. Gordon Kwong Che Keung and Professor Japhet Sebastian Law is beneficially interested in 200,000 GDC Shares (representing approximately 0.02% of the existing issued share capital of GDC) respectively and each of them holds 2,100,000 GDC Options respectively.

First Shanghai has been appointed as the independent financial adviser to consider the terms of the Offers and make a recommendation to the Independent Board Committee in that regard.

### THE OFFERS

The Offers, comprising the Share Exchange Offer and the Option Offer are, on and subject to the terms and conditions set out in the Offer Document, made by DBS Asia on behalf of the Offeror are on the following basis:

**For every 10 GDC Shares ..... 3 new SCG Shares**  
**For cancellation of each outstanding GDC Option**  
**with the right to convert into 1 new GDC Share ..... HK\$0.01 in cash**

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## LETTER FROM THE BOARD

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### The Share Exchange Offer

The share exchange offer of 3 new SCG Shares for every 10 GDC Shares has been determined by the Offeror with reference to the closing price of the SCG Shares as quoted on the Stock Exchange on 15 November 2004, which was HK\$0.56. This translates into a value of approximately HK\$0.17 per GDC Share.

The highest and lowest closing prices at which the GDC Shares were traded on the Stock Exchange during the six-month period immediately prior to the Last Trading Day, were HK\$0.44 and HK\$0.11 on 13 May 2004 and 27 October 2004, respectively.

Based on the closing price of HK\$0.56 per SCG Share as quoted on the Stock Exchange on 15 November 2004, the Share Exchange Offer:

- (a) represents a premium of approximately 48% over the closing price of HK\$0.115 per GDC Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) represents a premium of approximately 33% over the average closing price of approximately HK\$0.128 per GDC Share for the last ten trading days up to and including the Last Trading Day;
- (c) represents a premium of approximately 35% over the average closing price of approximately HK\$0.126 per GDC share for the one-month period up to and including the Last Trading Day;
- (d) represents a premium of approximately 113% over the audited consolidated net asset value per GDC Share of approximately HK\$0.08 as at 31 December 2003 (based on the audited consolidated net assets of approximately HK\$68 million and 800,820,000 GDC Shares in issue as at 31 December 2003) and a premium of approximately 143% over the unaudited consolidated net asset value per GDC Share of approximately HK\$0.07 as at 30 June 2004 (based on the unaudited consolidated net assets of approximately HK\$57 million and 800,820,000 GDC Shares in issue as at 30 June 2004);
- (e) represents a premium of approximately 31% over the closing price of HK\$0.130 per GDC Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (f) represents a premium of approximately 33% over the average closing price of approximately HK\$0.128 per GDC Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Latest Practicable Date.

### The Option Offer

As at the Latest Practicable Date, GDC has 22,631,615 outstanding GDC Options, out of which Sotas Limited has been granted an option to subscribe for 8,331,615 new GDC Shares (i.e. the Sotas Option). The exercise in full of the 22,631,615 GDC Options would result in the issue of additional 22,631,615 GDC Shares (representing 2.75% of the enlarged issued share capital of GDC as enlarged by

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## LETTER FROM THE BOARD

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the issue of GDC Shares pursuant to the exercise of the GDC Options). Sotas Limited is an investment holding company and a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly-owned by Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited were considered as initial management shareholders of GDC at the time of listing. Save for the aforementioned, Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited do not have any relationship with Mr. Raymond Dennis Neoh, Mr. Anthony Francis Neoh and their respective associates.

Based on the aggregate exercise price of US\$600,000 (approximately HK\$4,680,000) entitling Sotas Limited to subscribe for 8,331,615 new GDC Shares, the exercise price of the outstanding GDC Options for Sotas Limited is derived as approximately HK\$0.56 per GDC Share. As the exercise prices for the outstanding GDC Options range from HK\$0.44 to HK\$0.56 per GDC Option, the GDC Options are thus currently “out of money” and therefore, the Option Offer Price shall be a nominal value of HK\$0.01 in cash per GDC Option.

Save for the GDC Options, GDC has no other convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of GDC.

### **Total consideration for the Offers**

As at the Latest Practicable Date, there are a total of 800,820,000 GDC Shares in issue. On the basis of the Share Exchange Offer of 3 new SCG Shares for every 10 GDC Shares and based on the closing price of HK\$0.56 per SCG Share as quoted on the Stock Exchange on 15 November 2004, the price for each GDC Share under the Share Exchange Offer is approximately HK\$0.17 per GDC Share. The entire issued share capital of GDC is valued at approximately HK\$136 million.

On the basis of the GDC Option Offer Price for cancellation of each outstanding GDC Option, the 22,631,615 outstanding GDC Options as at the Latest Practicable Date are valued at approximately HK\$226,316.

### **Terms of the Offers**

Acceptance of the Share Exchange Offer or the Option Offer by any GDC Shareholder or GDC Optionholder will be deemed to constitute a warranty by such person that all the GDC Shares or GDC Options (as the case may be) to be sold by such person under the Share Exchange Offer or the Option Offer (as the case may be) will be acquired free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, in the case of the GDC Shares, the right to receive dividends and distributions declared, made or paid, if any, on or after the date of the Offer Document.

The availability of the Share Exchange Offer to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

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## LETTER FROM THE BOARD

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### CONDITIONS OF THE OFFERS

The Offers are conditional upon the following:

- (a) the Offers having been approved by the shareholders of SCG in a general meeting in accordance with the requirements under the Listing Rules;
- (b) each and every member of the GDC Group remaining solvent and not subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, provisional liquidator, receiver or other person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the assets or undertakings of any member of the GDC Group from the date of the Joint Announcement up to the date when Conditions (a), (c), (d) and (e) are all satisfied;
- (c) no event having occurred on or before the date on which Condition (d) below has been fulfilled which would make the Offers or the acquisition of any of the GDC Shares by the Offeror and/or cancellation of the GDC Options void, unenforceable, illegal or unable to be proceeded or would impose any additional material conditions or obligations with respect to the Offers or any part thereof or the acquisition of any of the GDC Shares and/or cancellation of any GDC Options;
- (d) valid acceptances of the Share Exchange Offer having been received (and, where permitted, not withdrawn) by 4:00 p.m. on the Closing Date (or such later times(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of the GDC Shares, which together with the GDC Shares already held by the Offeror and parties acting in concert with it, constitute more than 50% of the voting rights normally exercisable at general meetings of GDC; and
- (e) the Stock Exchange granting the listing of, and permission to deal in, the new SCG Shares to be issued pursuant to the terms of the Share Exchange Offer.

**The Offers may or may not become unconditional. Shareholders of SCG and GDC and investors should exercise caution when dealing in the SCG Shares and the GDC Shares.**

### WAIVER OF THE CONDITIONS OF THE OFFERS

SCG reserves the right to waive all or any of the Conditions (except Conditions (a), (d) and (e)) in whole or in part on or before the First Closing Date.

Thus, if the Offeror does not receive valid acceptances of the Share Exchange Offer by the First Closing Date, which together with the GDC Shares already held by the Offeror and parties acting in concert with it before or during the Offers will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of GDC, the Share Exchange Offer cannot become unconditional and the Offers will lapse unless they are revised or extended.

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## LETTER FROM THE BOARD

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Further details on the terms and conditions of the Offers are set out in the Offer Document. Your attention is further drawn to the Joint Announcement.

### STAMP DUTY

Seller's and buyer's ad valorem stamp duty arising in connection with acceptances of the Share Exchange Offer, amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable in respect of the relevant acceptance will be borne by SCG.

### INFORMATION ON GDC

Headquartered in Hong Kong, the GDC Group provides an integrated value chain in the digital content business which encompasses computer graphics creation and production, distribution and exhibitions of digital content, and training of Computer Graphics artists in the Asia Pacific region.

Based on the latest published audited financial statements of GDC, the audited consolidated net loss before and after taxation of the GDC Group were approximately HK\$33,300,000 (representing approximately HK\$0.04 per GDC Share) and approximately HK\$33,149,000 (representing approximately HK\$0.04 per GDC Share) respectively for the financial year ended 31 December 2003, representing an increase of approximately 91% and 90% over those figures recorded for the year ended 31 December 2002. The unaudited consolidated net loss after taxation of the GDC Group was approximately HK\$27,801,000 (representing approximately HK\$0.04 per GDC Share) for the nine months ended 30 September 2004 announced on 12 November 2004 pursuant to the GEM Rules. The audited consolidated net asset of the GDC Group as at 31 December 2003 was approximately HK\$68 million (representing approximately HK\$0.09 per GDC Share). The unaudited consolidated net asset of the GDC Group as at 30 June 2004 was approximately HK\$57 million (representing approximately HK\$0.07 per GDC Share) and represents a reduction of approximately 16% as compared to the audited consolidated net asset of the GDC Group as at 31 December 2003.

The audited consolidated net loss before and after taxation of GDC were approximately HK\$17.4 million and approximately HK\$17.4 million respectively for the financial year ended 31 December 2002. Loss per GDC Share was approximately HK\$0.026 for the financial year ended 31 December 2002. The audited consolidated net assets of the GDC Group as at 31 December 2002 was approximately HK\$5.4 million.

According to the third quarterly report 2004 of GDC, despite intense competition from digital cinema equipment manufacturers, turnover of GDC Technology Limited, a subsidiary of GDC involved in the digital content distribution and exhibition business, for the nine months ended 30 September 2004 was approximately HK\$13,636,000 which, when compared with the turnover for the nine months end 30 September 2003 of HK\$4,281,000, represented an increase of approximately 218%.

Further to the installation of 10 digital cinemas in California, US, during the second quarter of 2004, an additional 20 digital cinemas were installed in more than 11 states across the US in the third quarter of 2004. GDC Technology Limited also expanded its market share in India by retrofitting five cinemas in South India. The Deng Xiao Ping Memorial Museum in China is now one of the customers of the GDC Group.

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## LETTER FROM THE BOARD

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On 25 June 2004, GDC Holdings Limited, a wholly-owned subsidiary of GDC and Gameone Online Entertainment Group Limited entered into an agreement to establish a joint venture to engage in the business of development and production of on-line video games and other related industries. As at the Latest Practicable Date, the joint venture was not yet established and no on-line video games had ever been launched.

On 12 September 2004 at IBC, European DocuZone announced that it had selected servers from GDC Technology Limited and digital projectors from Panasonic for its European digital cinema network. During the press conference at IBC, it was announced that over 180 independent cinemas across Europe would install customised GDC Technology DSR™ Servers alongside DLP™ projectors from Panasonic.

Further, the GDC Group is under negotiations with its sales agent in respect of the worldwide distribution of the GDC Group's film titled "Thru the Moebius Strip". The Directors expect that the film will be released on or before the end of 2005 subject to market conditions.

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of GDC entered into a Co-production Agreement (the "Co-production Agreement") with Westwood Audiovisual and Multimedia Consultants, Inc. ("WAMC") and Production and Partners Multimedia, SAS ("P&PM") in relation to an animated television series.

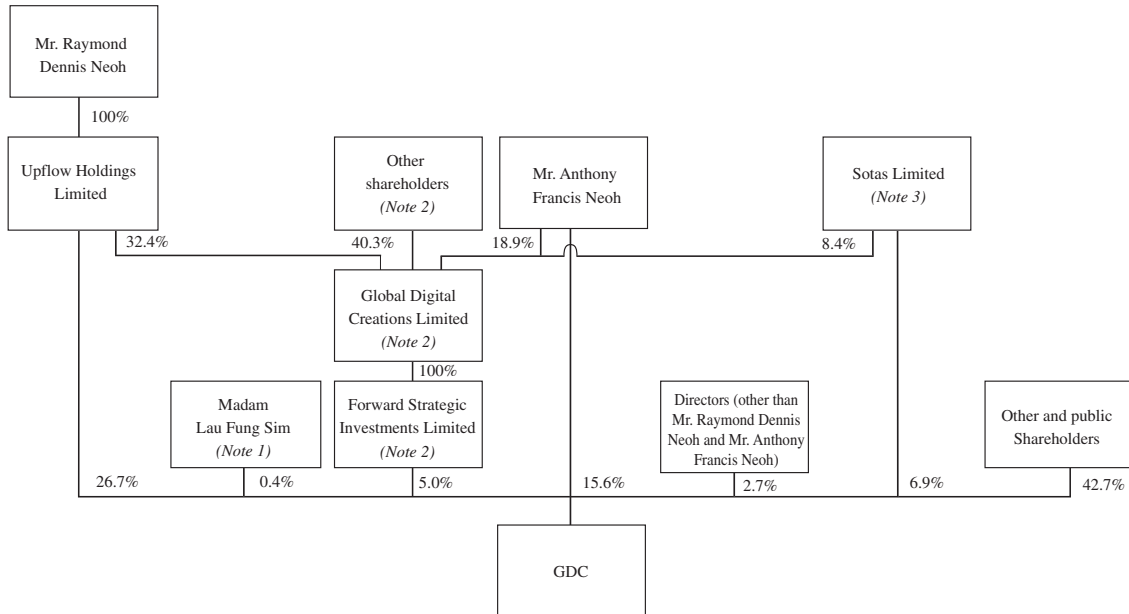
In November 2004, P&PM issued a summary summons against WAMC and GDC Entertainment before the Court of Commerce of Angoulême (France), in respect of the appointment of an agent which would oversee the co-production. GDC's French legal adviser has advised GDC that the appointment of an agent was not enforceable in any event in PRC where the production is taking place. At that time, the Board considers that the claim had no financial impact.

A hearing took place on 11 January, 2005. During the course of the proceedings, the claims against GDC Entertainment have been modified. P&PM and WAMC are claiming in their new brief either to be granted the right to substitute a new producer of the "same nationality" in replacement of GDC Entertainment pursuant to Article 15 of the Co-production Agreement, or the appointment of an expert whose task would be basically to assess the parties respective liabilities.

In the afternoon of 13 January 2005, the Board was informed by GDC's French legal adviser by fax of the change of the claim. GDC was advised by its French legal advisers that this new claim does not in any event affect accrued rights, as even if GDC were substituted, the monies invested by GDC are recoverable as an account payable under the co-production. After consideration of the advice from the French legal adviser, the Directors believe that this new claim does not have an immediate financial impact on GDC, although the Directors will have to consider in the coming months, the further conduct of the litigation and devise ways with its legal advisers to protect GDC's overall interests in the co-production.

## LETTER FROM THE BOARD

The following is the shareholding structure of GDC as at the Latest Practicable Date:



*Notes:*

1. Madam Lau Fung Sim is the spouse of Mr. Raymond Dennis Neoh.
2. Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.

As the Latest Practicable Date, the shareholders of Global Digital Creations Limited were as follows:

Name of shareholders	Shareholding (%)
Upflow Holdings Limited	32.4%
Anthony Francis Neoh	18.9%
Chong Man Nang	1.3%
Bright Oceans Corporation (HK) Limited	3.1%
Richard Yingneng Yin	1.3%
Forward Strategic Investments Limited	9.3%
Sotas Limited	8.4%
Perfect Brilliant Limited	4.4%
Cyber Prime Developments Limited	6.3%
Christopher Paul Neoh	1.6%
Financial Outreach Limited	2.5%
Ajitkumar Chandubhai Patel	1.6%
Future United Investments Limited	1.6%
SRI Group Limited	2.5%
Kanwin Corporation	0.6%
Marketeer Management Limited	4.2%
Total	100.0%

3. Sotas Limited is an investment holding company and a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly-owned by Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited were considered as initial management shareholders of GDC at the time of listing.

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## LETTER FROM THE BOARD

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As set out in the third quarterly report of the Company, the Directors have been considering ways to best position the GDC Group's digital content distribution and exhibition business, which involves sales and lease of digital cinema equipment to digital cinemas, in the global environment. Plans under consideration include the introduction of strategic investors (partial disposal) for GDC Technology Limited, a wholly owned subsidiary of GDC, or a divestment plan (complete disposal), provided that the right valuation can be achieved. GDC is currently in exclusive discussions with an independent third party in relation to a possible divestment of GDC Technology Limited. The discussions are at a preliminary stage, and there is no guarantee that they will result in any agreement. As at the Latest Practicable Date, there is no discloseable transaction in respect of such divestment plan. As at the Latest Practicable Date, GDC Technology Limited was a major operating subsidiary of GDC, the turnover of which accounted for approximately 77.5%, 85.8% and 80.4% of the total turnover of the GDC Group for the year ended 31 December 2003, the six months ended 30 June 2004 and the nine months ended 30 September 2004, respectively. In addition, based on the relevant unaudited management accounts of GDC Technology Limited and GDC Technology Pte Limited, GDC Technology Limited recorded net profits of approximately HK\$2,253,582 for the year ended 31 December 2003, whilst the net loss of GDC Technology Limited accounted for approximately 27.2% and 27.0% of the consolidated net loss of the GDC Group for the six months ended 30 June 2004 and the nine months ended 30 September 2004 respectively. Further, GDC Technology Pte Limited, a wholly owned subsidiary of GDC Technology Limited, recorded net profits of approximately HK\$3,937,115, SGD284,043 (equivalent to approximately HK\$1,335,002) and SGD66,819 (equivalent to approximately HK\$314,049) for the year ended 31 December 2003, the six months ended 30 June 2004 and the nine months ended 30 September 2004, respectively. If a divestment takes place, the turnover of the GDC Technology Limited attributable to GDC Group may be significantly reduced whilst the funds derived from the divestment will on the one hand enable GDC to strengthen its financial base and on the other enable GDC to concentrate on and further develop its business of creation of digital content. Currently, GDC Technology Limited is primarily engaged in the distribution and exhibitions of digital content business of the GDC Group (essentially equipment production which is an increasingly competitive field and major investment will be needed to keep up with this continuing competition). The revenues previously earned by GDC Technology might be gradually replaced by revenues from digital content creation as GDC develops this core business. Upon the completion of the possible disposal (partial or complete), GDC Group is targeted to engage in the distribution and exhibitions of digital content business on a subcontracting basis or other similar basis subject to contract. When the time comes for GDC to enter the digital content distribution field, it will be able to source digital cinema equipment from a highly competitive buyers' market. On the other hand, GDC Group will continue to carry out computer graphics creation and production and training of Computer Graphics artists in the Asia Pacific region. Therefore, the Directors consider that there is no change of principal business of GDC Group immediately after the possible disposal. Furthermore, the Directors have also been considering various plans to raise funds through the issue of new shares for equity capital or convertible instruments.

The Directors consider that the medium and long term prospects of the GDC Group depend upon preservation and further development of its ability as one of the few studios in the world with proven capability of producing a full feature length CG movie i.e. the Film. With stronger financial backing from SCG, the directors believe that GDC should be able to build a strong internationally oriented creative and production team, capable of making a mark in the international markets in feature movies, television series and computer and network games.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE OFFEROR AND SCG

The Offeror is a company incorporated in the British Virgin Islands on 18 February 1993 and is a wholly-owned subsidiary of SCG. The directors of the Offeror are Messrs. Cao Zhong and Chen Zheng, both of whom are also directors of SCG. The main business of the Offeror is investment holding. SCG is a Hong Kong-listed company incorporated in Bermuda on 9 May 1991. The principal activity of SCG is investment holding. The principal activities of the subsidiaries of SCG consist of property investment and management. As at the Latest Practicable Date, Shougang Holding and Cheung Kong, through their subsidiaries, were the substantial shareholders of SCG, beneficially interested in 445,731,315 SCG Shares and 133,048,717 SCG Shares respectively, as recorded under the register kept by the Company under Section 336 of the SFO, representing approximately 47% and 14%, respectively, of the issued share capital of SCG.

Based on the latest published audited financial statements of SCG, the audited consolidated net profit before and after taxation of SCG were approximately HK\$26.6 million and approximately HK\$28.5 million respectively for the financial year ended 31 December 2003. The unaudited consolidated net profit after taxation of SCG was approximately HK\$83.7 million for the six months ended 30 June 2004. Earnings per SCG Share was approximately HK\$0.03 and HK\$0.09 for the year ended 31 December 2003 and for the six months ended 30 June 2004 respectively. The audited consolidated net asset of the SCG Group as at 31 December 2003 was approximately HK\$632.0 million (or HK\$0.74 per SCG Share), and the unaudited consolidated net asset of the SCG Group as at 30 June 2004 was approximately HK\$343.2 million (or HK\$0.37 per SCG Share). The audited consolidated net profit before and after taxation of SCG were approximately HK\$1.5 million and approximately HK\$2.8 million respectively for the financial year ended 31 December 2002. Earnings per SCG Share was approximately HK\$0.003 for the financial year ended 31 December 2002. The audited consolidated net asset of the SCG Group as at 31 December 2002 was approximately HK\$619.7 million (or HK\$0.75 per SCG Share).

## LETTER FROM THE BOARD

Assuming all the GDC Shareholders accept the Share Exchange Offer, a total of 240,246,000 new SCG Shares will be issued, representing approximately 20.4% of the enlarged share capital of SCG or approximately 25.6% of the existing share capital of SCG. The shareholding structure of SCG, both before and after completion of the Offers, assuming full acceptance of the Share Exchange Offer is as follows:–

Name	Prior to completion of the Offers		After completion of the Offers	
	<i>No. of SCG Shares held</i>	<i>%</i>	<i>No. of SCG Shares held</i>	<i>%</i>
Shougang Holding <sup>(1)</sup>	445,731,315	47.5	445,731,315	37.8
Cheung Kong <sup>(2)</sup>	133,048,717	14.2	133,048,717	11.3
Mr. Raymond Dennis Neoh and Mr. Anthony Francis Neoh	–	–	101,729,023	8.6
Sotas Limited and related parties <sup>(3)</sup>	–	–	16,663,231	1.4
Directors of SCG <sup>(4)</sup>	33,514,037	3.5	33,514,037	2.8
Others and public shareholders	<u>327,022,598</u>	<u>34.8</u>	<u>448,876,344</u>	<u>38.1</u>
Total	<u><u>939,316,667</u></u>	<u><u>100.0</u></u>	<u><u>1,179,562,667</u></u>	<u><u>100.0</u></u>

*Notes:*

1. Wheeling Holdings is a wholly owned subsidiary of Shougang Holding and its interest of 430,491,315 SCG Shares is included in the interest held by Shougang Holding. Shougang Holding is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise in the PRC.
2. Max Same Investment Limited is a wholly-owned subsidiary of Cheung Kong and its interest in SCG is included in the interest held by Cheung Kong.

By virtue of their interests in Cheung Kong, the following person and companies are each deemed to be interested in the SCG Shares held by Cheung Kong:

Li Ka-Shing

Li Ka-Shing Unity Trustcorp Limited as a trustee of a discretionary trust holding units in the Li Ka-Shing Unity Trust.

Li Ka-Shing Unity Trustee Company Limited as trustee of the Li Ka-Shing Unity Trust.

Li Ka-Shing Unity Trustee Corporation Limited as trustee of the Li Ka-Shing Unity Discretionary Trust.

3. Sotas Limited is an investment holding company and a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly-owned by Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited were considered as initial management shareholders of GDC at the time of listing.
4. The directors of SCG are parties acting in concert with the Offeror. The following directors of SCG are interested in the SCG Shares: Wang Qinghai (holding 8,278,679 SCG Shares), Cao Zhong (holding 8,278,679 SCG Shares), Cheng Xiaoyu (holding 8,278,679 SCG Shares), Leung Shun Sang, Tony (holding 8,278,000 SCG Shares) and Choy Hok Man, Constance (holding 400,000 SCG Shares).

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## LETTER FROM THE BOARD

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On 1 December 2004, SCG Finance Corporation Limited agreed to provide an unsecured loan facility of up to an aggregate principal amount of HK\$20,000,000 for GDC to be used solely for fulfilling GDC's working capital requirements and repayment of short-term borrowing at an annual interest rate of Hong Kong Dollar prime rate plus 3%, to be repaid in full by GDC 90 days from first drawdown date of 1 December 2004. As at the Latest Practicable Date, GDC has withdrawn in aggregate approximately HK\$13.8 million for the aforesaid purposes. SCG Finance Corporation Limited, a wholly owned subsidiary of SCG, has a money lenders licence.

### INTENTION OF THE MAJOR SHAREHOLDERS OF GDC

Two shareholders of GDC, namely Upflow Holdings Limited (which is wholly owned by Mr. Raymond Dennis Neoh, a director of GDC) and Mr. Anthony Francis Neoh, a director of GDC, who together own 339,096,746 GDC Shares, representing approximately 42.34% of the existing issued share capital of GDC, have jointly provided an irrevocable undertaking to accept the Share Exchange Offer in respect of the above shareholding and to procure shareholders holding more than 50% of the existing issued share capital of GDC (including their shareholding of 42.34%) to accept the Share Exchange Offer. There is no penalty in the undertaking. The commitment does not include any GDC Options and the commitment will not be binding if a higher offer is made. On 24 January 2005, Upflow Holdings Limited has tendered 214,122,516 GDC Shares for acceptance of the Share Exchange Offer. On 21 January 2005 and 25 January 2005, Mr. Anthony Francis Neoh has tendered 20,820,000 GDC Shares and 104,154,230 GDC Shares respectively for acceptance of the Share Exchange Offer.

Save as disclosed, none of the other Directors, in aggregate holding 21,379,090 GDC Shares (being approximately 2.7% of the issued share capital of GDC) and 14,300,000 GDC Options, have given any undertaking to accept or not to accept the Share Exchange Offer or the Option Offer up to the Latest Practicable Date. However, the aforesaid Directors holding in aggregate of 21,379,090 GDC Shares and 14,300,000 GDC Options respectively have indicated their respective intention to accept the Offers in full. On 20 March 2003, the shareholders of Forward Strategic Investments Limited, had by written resolution, adopted a share option scheme ("FS Scheme") also dated 20 March 2003, wherein its board is entitled to grant options to grantees such that they can purchase a total of 61,015,197 GDC Shares from Forward Strategic Investments Limited pursuant to the terms of the FS Scheme. As at the Latest Practicable Date, there were a total of 40,193,002 GDC Shares subject to FS Scheme.

Further, up to the Latest Practicable Date, Mr. Anthony Francis Neoh, one of the grantees under the FS Scheme, was entitled to subscribe for 32,201,692 GDC Shares at an exercise price of HK\$1.00 in aggregate. Up to the Latest Practicable Date, Ms. Mak Lai Yu, Amelia, one of the grantees under the FS Scheme, was entitled to subscribe for 1,214,926 GDC Shares at an exercise price of HK\$1.00 in aggregate. Mr. Anthony Francis Neoh and Ms. Mak Lai Yu, Amelia had instructed Forward Strategic Investments Limited, holding in aggregate of 40,193,002 GDC Shares (being approximately 5.0% of the issued share capital of GDC) as at the Latest Practicable Date, to accept the Share Exchange Offer on their behalf in relation to 33,416,618 GDC Shares. Mr. Anthony Francis Neoh and Ms. Mak Lai Yu, Amelia further agreed with Forward Strategic Investments Limited that upon the completion of the Share Exchange Offer, Mr. Anthony Francis Neoh and Ms. Mak Lai Yu, Amelia will have the option to purchase 9,660,507 SCG Shares for an aggregate exercise price of HK\$1.00 and 364,477 SCG Shares for an aggregate exercise price of HK\$1.00 respectively from Forward Strategic Investments Limited. Alternatively, Mr. Anthony Francis Neoh and Ms. Mak Lai Yu, Amelia may elect to exercise their respective option under

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## LETTER FROM THE BOARD

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FS Scheme and accept the Share Exchange Offer directly. As at the Latest Practicable Date, the remaining 3 grantees of the FS Scheme, holding in aggregate of 6,776,384 options under the FS Scheme, have not indicated their respective intention in respect of the Share Exchange Offer. On the other hand, Madam Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh and holds 3,318,450 GDC Shares (being approximately 0.4% of the issued share capital of GDC), has not indicated her intention in respect of the Share Exchange Offer.

### INTENTION OF THE OFFEROR IN RELATION TO THE GDC GROUP

Your attention is drawn to intention of the Offeror in relation to GDC Group as set out in the Offer Document, some of which information has been extracted as below.

#### Appointment of Directors

According to the Offer Document, subject to the Offers becoming unconditional and subject to compliance with the Takeovers Code, the Offeror intends to appoint two directors to the Board. It is the intention of the Offeror to nominate Mr. Cao Zhong as non-executive director and Mr. Chen Zheng as executive director to the Board. Apart from the additional appointments, the Offeror does not intend to make any changes to the current board composition of GDC. The Offeror also does not have any intention to make any major changes to the management structure save for the above appointments. The Offeror intends that there will be no material changes to the continued employment of the employees of the GDC Group following completion of the Offers.

Set out below are the biographies of Mr. Cao Zhong and Mr. Chen Zheng, the proposed Directors to be appointed:

Mr. Cao Zhong, aged 45, is an economist. Mr. Cao holds a master degree in Economics. Mr. Cao was appointed as vice chairman of SCG, deputy chairman and general manager of Shougang Holding, managing director of Shougang Concord International Enterprises Company Limited and chairman of Shougang Concord Century Holdings Limited and Shougang Concord Technology Holdings Limited in November 2001. He also acts as deputy chairman and general manager of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Mr. Chen Zheng, aged 44, is an engineer and a senior economist. Mr. Chen holds a bachelor degree in chemical engineering and a master degree in business administration. He was appointed as an executive director of SCG in January 2004. Mr. Chen has extensive experience in investing business and corporate management.

As at the Latest Practicable Date, there were already a total of seven Directors on the Board. According to the relevant provision of the Bye-laws of GDC, the Directors shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the GDC Shareholders, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by GDC Shareholders. Currently, the Board has the power to appoint only one Director to fill casual vacancy. GDC was informed by SCG that the Offeror intends to appoint Mr. Chen Zheng as an executive director to the

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## LETTER FROM THE BOARD

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Board on the date upon which the Offers become unconditional. GDC was further informed by Mr. Stephen Scharf, one of the existing Directors, that he shall resign from the Board on the later of (i) the First Closing Date; or (ii) the date upon which the Offers become unconditional. After the resignation of Mr. Stephen Scharf from the Board, the Offeror can proceed with the intended appointment of Mr. Cao Zhong to the Board.

### **Intention of the Offeror in relation to GDC Group**

According to the Offer Document, SCG does not intend to make any changes to the current business operations of GDC. The Offeror also does not intend to introduce any major changes to the business, including any redeployment of the fixed assets of the GDC Group. The Offeror and SCG have not decided whether to maintain the listing of GDC on GEM or to effect the compulsory acquisition of GDC in the event that the Offeror is permitted to do so under the Companies Act and the Takeovers Code. Further announcement will be made in this respect accordingly.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatize GDC by means of the Offers and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Act, acceptance of the Offers and purchases (in each case of the disinterested shares) made by the Offeror and persons acting in concert with it during the period of four months after posting the Offer Document total 90% of the disinterested shares.

The directors of SCG have undertaken and the new directors to be nominated by the Offeror and appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that public float exists in the GDC Shares if listing is to be maintained.

**The Stock Exchange has stated that if, upon the close of the Offers, less than 25% of the GDC Shares are held by the public or if the Stock Exchange believes that:**

- (i) a false market exists or may exist in the trading of the GDC Shares; or**
- (ii) there are insufficient GDC Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the GDC Shares until a level of sufficient public float is attained.**

So long as GDC remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of GDC. Any acquisitions or disposals of assets by the GDC Group will be subject to the provisions of the GEM Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require GDC to issue an announcement and a circular to the GDC shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of GDC. The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of GDC and any such transactions may result in GDC being treated as if it were a new listing applicant and subject to the requirements for new listing applicants as set out in the GEM Rules.

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## LETTER FROM THE BOARD

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### Availability of the Offers

The Offer Document has been sent to the GDC Shareholders and the GDC Optionsholders, including those with a registered address outside Hong Kong. However, the availability of the Offers to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Subject to compliance with the Takeovers Code, the Offeror reserves the right to make special arrangements regarding the terms of the Offers in relation to holders of GDC Shares and GDC Options who are not resident in Hong Kong. No such special arrangement has been made. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

### RECOMMENDATIONS

Your attention is drawn to the respective letters from the Independent Board Committee and First Shanghai. The letter from the Independent Board Committee is set out on pages 22 and 23 which contains its recommendation to the GDC Independent Shareholders and the GDC Optionholders in respect of the Offers. The letter from First Shanghai is set out on pages 24 to 53, which contains their advice to the Independent Board Committee in respect of the Offers and the principal factors they have considered in forming their advice. The GDC Independent Shareholders and the GDC Optionholders are recommended to read this document and information set out in the appendices to this document. The GDC Independent Shareholders and the GDC Optionholders are further recommended to read the Offer Document and the related forms of acceptance regarding particulars of the terms and conditions of the Offers, acceptance procedures and settlement.

Yours faithfully,  
For and on behalf of the board of  
**Global Digital Creations Holdings Limited**  
**Dr. David Deng Wei**  
*Vice Chairman*

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LETTER FROM INDEPENDENT BOARD COMMITTEE

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**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)

*Executive Directors:*

Mr. Raymond Dennis Neoh

*Non-executive Director:*

Mr. Anthony Francis Neoh (*Chairman*)

Dr. David Deng Wei (*Vice Chairman*)

Mr. Stephen Scharf

Mr. Zhang Dong Sheng (*alternate director to  
Dr. David Deng Wei*)

*Independent non-executive Directors:*

Mr. Gordon Kwong Che Keung

Professor Japhet Sebastian Law

Mr. Paul Kwan Yuen Chiu

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of  
business:*

Suite 1804-5, Hutchison House

10 Harcourt Road

Central

Hong Kong

27 January 2005

*To the GDC Independent Shareholders and the GDC Optionholders*

Dear Sir or Madam,

**Voluntary conditional share exchange offer by  
DBS Asia Capital Limited  
on behalf of  
Upper Nice Assets Ltd., a wholly-owned subsidiary of  
Shougang Concord Grand (Group) Limited, to acquire all the issued  
shares of, and a voluntary conditional cash offer to cancel all the outstanding options of,  
Global Digital Creations Holdings Limited  
(other than those already owned by the Offeror and parties acting in concert with it)**

We refer to the document issued by GDC to its shareholders and optionholders dated 27 January 2005 (the “Offeree Document”) of which this letter forms part. Terms defined in the Offeree Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to form an independent board committee (the “Independent Board Committee”) to consider the terms of the Offers and to make recommendations to the GDC Independent Shareholders and the GDC Optionholders in connection with the Offers.

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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We have considered whether: (i) the terms of the Share Exchange Offer are fair and reasonable so far as the GDC Independent Shareholders are concerned; and (ii) the terms of the Option Offer are fair and reasonable so far as the GDC Optionholders are concerned. First Shanghai has been appointed as the independent financial adviser to advise us in respect of the above.

We wish to draw your attention to the letter from the Board and the letter from First Shanghai as set out in the Offeree Document. Having considered the principal factors and reasons considered by, and the advice of First Shanghai as set out in its letter of advice, we consider that the terms of the Offers are fair and reasonable so far as the GDC Independent Shareholders and GDC Optionholders are concerned. Accordingly, we recommend the GDC Independent Shareholders and GDC Optionholders to accept the Offers.

Yours faithfully,

For and on behalf of

*Independent Board Committee*

**Gordon Kwong Che Keung**

*Independent*

*non-executive Director*

**Japhet Sebastian Law**

*Independent*

*non-executive Director*

**Paul Kwan Yuen Chiu**

*Independent*

*non-executive Director*

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## LETTER FROM FIRST SHANGHAI

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*The following is the text of a letter of advice to the Independent Board Committee from First Shanghai in respect of the Offers prepared for the purpose of incorporation in this document.*



### FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

27 January 2005

*To the Independent Board Committee*

Dear Sirs,

**Voluntary conditional share exchange offer by  
DBS Asia Capital Limited  
on behalf of  
Upper Nice Assets Ltd., a wholly-owned subsidiary of  
Shougang Concord Grand (Group) Limited, to acquire all the issued  
shares of, and a voluntary conditional cash offer to cancel all the outstanding options of,  
Global Digital Creations Holdings Limited  
(other than those already owned by the Offeror and parties acting in concert with it)**

#### INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee in respect of the fairness and reasonableness of the terms of the Offers. Details of the Offers are set out in the Offer Document. In response to the Offer Document, GDC issued a response document dated 27 January 2005 (the "Offeree Document"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Offeree Document.

In formulating our opinion and recommendations, we have relied on the accuracy of the information and representations contained in the Offeree Document and the Offer Document and information provided to us by GDC and the Directors. We have assumed that all information and representations made or referred to in the Offeree Document as provided by the Directors and in the Offer Document as provided by SCG were true at the time when they were made and continue to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by GDC, SCG and their respective directors in the Offeree Document and the Offer Document respectively were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by GDC and the Directors and the information contained in the Offer

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## LETTER FROM FIRST SHANGHAI

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Document and have been advised by GDC and the Directors that no material facts have been omitted from the information provided and referred to in the Offeree Document. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Offeree Document and the Offer Document and to provide a reasonable basis for our advice. We have not, however, conducted an independent investigation into the business, affairs or prospects of either of the GDC Group or the SCG Group nor have we carried out any independent verification on the information supplied.

We have not considered the tax consequences on the GDC Independent Shareholders and the GDC Optionholders of their acceptance or non-acceptance of the Offers since these are particular to their own individual circumstances. In particular, GDC Independent Shareholders and GDC Optionholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offers and, if in any doubt, should consult their own professional advisers.

Pursuant to a sales and purchase agreement dated 6 April 2001 (the “Sales and Purchase Agreement”) entered into between First Shanghai Investments Limited (“FSIL”), the ultimate holding company of First Shanghai, and Vanda Systems & Communications Holdings Limited (“Vanda Systems”), FSIL disposed of its 60% equity interests in its subsidiary to Vanda Systems with an option (the “Option”) exercisable on 31 December 2003 granted to FSIL to require Vanda Systems to purchase the remaining 40% equity interests. At the time of entering into the Sales and Purchase Agreement, Vanda Systems was not a member of the Cheung Kong group. In September 2003, Cheung Kong became the controlling shareholder of Vanda Systems and indirectly interested in approximately 37% of the issued share capital of Vanda Systems as disclosed in the announcement of Vanda Systems dated 5 September 2003. In December 2003 (just prior to the expiry of the Option’s period), FSIL exercised the Option to require Vanda Systems to purchase the remaining 40% equity interests. To satisfy such payment obligation, Vanda Systems negotiated with First Shanghai Finance Limited (“FSFL”), a fellow subsidiary of First Shanghai, for a term loan of HK\$19.5 million. An agreement was entered into between Vanda Systems and FSFL in December 2003 for a loan amounted to HK\$19.5 million for a term of one year at an interest rate of 2% p.a. (the “Loan”). Vanda Systems subsequently changed its name to Hutchison Global Communications Holdings Limited (“Hutchison Global”) in March 2004. According to the 2004 interim report of Hutchison Global, Hutchison Global was indirectly held as to approximately 56.15% by Cheung Kong (a substantial shareholder of SCG as disclosed in the Joint Announcement). The revenue generated from the Loan only accounted for approximately 0.14% of the total turnover of FSIL and its subsidiaries (the “FSIL Group”) based on the 2003 annual report of FSIL and the loan amount only accounted for approximately 1.13% of total assets of the FSIL Group based on the 2004 interim report of FSIL. The Loan was subsequently settled on 24 December 2004. In December 2004, Vanda Systems & Communications Limited, a subsidiary of Hutchison Global, provided on-line computer technical support and related checking services to First Shanghai Securities Limited (“FSSL”), a fellow subsidiary of First Shanghai, and charged HK\$650,000 thereon.

As at the time of our engagement to act as the independent financial adviser to GDC, i.e. 22 November 2004, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd, an associate of First Shanghai, held 2 million shares of Shougang Concord Century Holdings Limited (“Shougang Concord”), which was indirectly held as to approximately 40.93% by Shougang Holding as disclosed in the 2004 interim report of Shougang Concord. The Offeror was indirectly held as to

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approximately 47.45% by Shougang Holding as disclosed in the Joint Announcement. The 2 million Shougang Concord shares held by China Alpha Fund only accounted for approximately 0.20% of the issued share capital of Shougang Concord as at 30 June 2004 based on the 2004 interim report of Shougang Concord. The shares in Shougang Concord were subsequently disposed of on 26 November 2004 and 29 November 2004.

In October 2004, FSSL acted as one of the underwriters of the global offering of Hutchison Telecommunications International Limited (“Hutchison Telecommunications”), which was indirectly held as to approximately 35.86% by Cheung Kong as disclosed in the prospectus of Hutchison Telecommunications dated 30 September 2004. FSSL charged an aggregate underwriting fee of approximately HK\$1.3 million, which accounted for approximately 0.48% of the turnover of the FSIL Group based on the 2003 annual report of FSIL.

In May 2003 and August 2003 respectively, FSSL entered into two sub-placing arrangements with the placing agent of Shougang Concord in relation to two share placing exercises by Shougang Concord. FSSL received an aggregate sub-placing fee of approximately HK\$260,000 therefrom, which accounted for approximately 0.09% of the turnover of the FSIL Group based on the 2003 annual report of FSIL.

Apart from the above, which we consider would not likely to create, or create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice, First Shanghai is not associated with the Offeror or GDC or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly First Shanghai is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or GDC or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

### THE INDEPENDENT BOARD COMMITTEE

The Board comprises one executive Director, three non-executive Directors and three independent non-executive Directors.

Mr. Raymond Dennis Neoh, the chief executive officer and an executive Director, through Upflow Holdings Limited, and Mr. Anthony Francis Neoh, the chairman and a non-executive Director, who together own approximately 42.34% of the existing issued share capital of GDC, have jointly provided an irrevocable undertaking to accept the Share Exchange Offer in respect of the above shareholding and to procure GDC Shareholders holding more than 50% of the existing issued share capital of GDC (including their shareholding of 42.34%) to accept the Share Exchange Offer. Mr. Raymond Dennis Neoh and Mr. Anthony Francis Neoh also had made various shareholder advances to GDC during the last two years.

Dr. David Deng Wei, the vice chairman and a non-executive Director, is interested in approximately 2.59% of the existing issued share capital of GDC and holds 8,000,000 GDC Options. Bright Oceans Corporation (HK) Limited, a company controlled by Dr. David Deng Wei, has made various shareholder advances to GDC during the past two years.

Mr. Stephen Scharf, a non-executive Director, is beneficially interested in approximately 0.02% of the existing issued share capital of GDC and holds 2,100,000 GDC Options. He has also provided advice, through his law firm, to GDC on matters in American Law during the past two years.

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Accordingly, they are not considered independent to give advice in respect of the Offers.

The Independent Board Committee comprising Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Paul Kwan Yuen Chiu has been established for the purpose of advising the GDC Independent Shareholders and the GDC Optionholders in respect of the Offers. Each of them has declared that he (i) does not have a conflict of interest in respect of the Offers, (ii) had not been an employee or agent of, other than being an independent non-executive Director and Mr. Gordon Kwong Che Keung and Professor Japhet Sebastian Law received directors' fee for the period between April to September 2003, or a consultant or adviser to the Offeror or GDC or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them for the past two years, (iii) had no financial or other connection with the Offeror or GDC or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them for the past two years, and (iv) does not hold, directly or indirectly, any shares, options, warrants or other equity related interests in the Offeror or GDC or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them, save as each of Mr. Gordon Kwong Che Keung and Professor Japhet Sebastian Law is beneficially interested in approximately 0.02% of the existing issued share capital of GDC respectively and each of them holds 2,100,000 GDC Options respectively. Based on such representation, we consider that these three Directors are eligible to be members of the Independent Board Committee to advise the GDC Independent Shareholders and the GDC Optionholders in respect of the Offers.

### **BACKGROUND TO AND THE TERMS OF THE OFFERS**

As announced in the Joint Announcement, on 1 November 2004, SCG approached the Board for a possible investment opportunity and on 15 November 2004, the Offeror proposed to make a voluntary conditional offer to acquire all the issued GDC Shares and cancel all the outstanding GDC Options (other than those already owned by the Offeror and parties acting in concert with it).

Save as disclosed under the paragraph headed "The Independent Board Committee" above, none of the Directors other than Mr. Raymond Dennis Neoh and Mr. Anthony Francis Neoh, in aggregate holding approximately 2.7% of the existing issued share capital of GDC and 14,300,000 GDC Options, have given any undertaking to accept or not to accept the Share Exchange Offer or the Option Offer up to the Latest Practicable Date. However, the aforesaid Directors holding in aggregate of approximately 2.7% of the existing issued share capital of GDC and 14,300,000 GDC Options respectively had indicated their respective intention to accept the Offers in full. For details of other GDC Shareholders' intention in relation to the Share Exchange Offer, please refer to the paragraph headed "Intention of the major shareholders of GDC" under the section headed "Letter from the Board" in the Offeree Document.

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The Offers are made on the basis described below:

The Share Exchange Offer and the Option Offer are voluntary conditional offers made by DBS Asia on behalf of the Offeror on the following basis:

For every 10 GDC Shares ..... 3 new SCG Shares

Number of GDC Shares subject to the Share Exchange Offer ..... 800,820,000

For cancellation of each outstanding GDC Option ..... HK\$0.01 in cash

Number of GDC Options subject to the Option Offer ..... 22,631,615

The Share Exchange Offer of 3 SCG Shares for every 10 GDC Shares has been determined by the Offeror with reference to the closing price of the SCG Shares as quoted on the Stock Exchange on 15 November 2004, which was HK\$0.56. This translates into a value of approximately HK\$0.17 per GDC Share (the “Share Offer Price”). Based on the closing price of HK\$0.58 per SCG Share as quoted on the Stock Exchange as at the Latest Practicable Date, the GDC Shares were value at approximately HK\$0.17 per GDC Share (the “LPD Share Offer Price”).

If the Offers become unconditional, GDC and its subsidiaries will become subsidiaries of SCG (collectively, the “Enlarged Group”). Each GDC Independent Shareholder will, if and to the extent that he accepts the Share Exchange Offer, continue to have an indirect interest in GDC through his interest in SCG.

The Offers are conditional upon a number of conditions, please refer to the relevant paragraph in the section headed “Letter from the Board” in the Offeree Document and form of acceptance and transfer for details.

Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the Offer Document. GDC Independent Shareholders are encouraged to read the Offer Document in full.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions and recommendations relating to the terms of the Offers, we have taken into consideration the following principal factors and reasons:

#### 1. Business and financial performance of the GDC Group

Headquartered in Hong Kong, the GDC Group provides an integrated value chain in the digital content business which encompasses computer graphics (“CG”) creation and production, distribution and exhibitions of digital content, and training of CG artists in the Asia Pacific region. The GDC Shares were listed on GEM on 4 August 2003.

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The table below sets out the consolidated financial information of the GDC Group for the two years ended 31 December 2003, the results for the nine months ended 30 September 2003 and the nine months ended 30 September 2004, and the values of total assets and net assets as at 30 June 2003 and 30 June 2004, which are extracted from the relevant annual report, quarterly reports and interim reports of GDC for the relevant year/periods:

	<b>(Unaudited)</b>		<b>(Audited)</b>	
	<b>Nine months ended</b>		<b>Year ended</b>	
	<b>30 September</b>		<b>31 December</b>	
	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	17,187	5,973	11,478	2,306
Loss attributable to the shareholders	(27,801)	(22,761)	(33,149)	(17,429)
Loss per GDC Share (HK cents)	(3.52)	(3.28)	(4.63)	(2.64)
Dividend	—	—	—	—
Total assets of the GDC Group	150,053 (Note)	127,734 (Note)	146,003	81,929
Net assets of the GDC Group	57,495 (Note)	29,359 (Note)	68,442	5,427

*Note:* As there is no consolidated balance sheet presented in the quarterly report of GDC for the nine months ended 30 September 2004 (the “GDC Quarterly Report”), the values of total assets and net assets are not available. Therefore, the total assets and net assets figures presented above are extracted from the corresponding interim reports of GDC for the periods ended 30 June 2003 and 30 June 2004.

According to the 2003 annual report of GDC (the “GDC Annual Report”), when GDC first set up, GDC set out to start one of the largest CG training centers in the Asia Pacific region. The GDC Group’s turnover increased by approximately 397.7% from approximately HK\$2.3 million in year 2002 to approximately HK\$11.5 million in year 2003. The increase was derived from the sales of digital cinema equipment, following the successful commercialization of these products in early 2003.

The net loss for year 2003 also recorded a substantial increase of approximately 90.2% from approximately HK\$17.4 million in year 2002 to approximately HK\$33.1 million in year 2003. The increase in net loss was mainly due to increase in administrative expenses from approximately HK\$11.6 million in year 2002 to approximately HK\$27.6 million in year 2003. It was stated in the GDC Annual Report that since 2000, GDC had also started to embark on the making of the CG feature film, Thru the Moebius Strip (the “Film”). During year 2003, The GDC Group had begun a programme to pre-market the Film by attending various international CG exhibitions and trade shows, as preparation work for the full launch of the Film at the Cannes Film Festival in May 2004, and to lay the necessary groundwork for merchandising opportunities. GDC Technology

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Limited (“GDC Technology”), the GDC Group’s digital cinema operation arm and a wholly owned subsidiary of GDC, was heavily engaged on marketing of its Digital Super Realism (the “DSR™”) range of products in Europe, US and Asia. Besides, GDC had incurred costs on research and development necessary to bring the digital content distribution technology into a commercial viable form and such costs were not capitalised. The new Shanghai training center of the GDC Group had only begun its operation from the third quarter of 2003, this together with the above contributed to the increase in administrative expenses.

The total assets of the GDC Group increased by approximately 78.2% from approximately HK\$81.9 million as at 31 December 2002 to approximately HK\$146.0 million as at 31 December 2003; while its net assets increased by approximately 1161.1% from approximately HK\$5.4 million to approximately HK\$68.4 million over the same period. The net increase in net assets was mainly due to the increase in fixed assets principally being computer equipment, inventories, production work in progress, and bank balances and cash, which was mainly due to receipt of gross proceeds of approximately HK\$66.3 million from GDC’s initial public offering (the “IPO Proceeds”) in August 2003 by which GDC became listed on the GEM.

According to the 2004 interim report of GDC (the “GDC Interim Report”), the total assets of the GDC Group increased by approximately 2.8% from approximately HK\$146.0 million as at 31 December 2003 to approximately HK\$150.1 million as at 30 June 2004; while its net assets decreased by approximately 16.0% from approximately HK\$68.4 million to approximately HK\$57.5 million over the same period. The net decrease in net assets was mainly due to accelerated use of the IPO Proceeds for the operation of the GDC Group as the pre-sale of the Film during the second quarter of 2004 did not materialise.

A lot of GDC Group’s investment was put in the production of the Film, the production costs of which were capitalised as production work in progress in the consolidated balance sheet of the GDC Group. As stated in the GDC Interim Report, production work in progress amounted to approximately HK\$93.5 million, majority of which represented production costs incurred for the Film, as at 30 June 2004. Besides, as stated in the section headed “Letter from the Board” in the Offeree Document, the Directors have been considering ways to best position the GDC Group’s digital content distribution and exhibition business, which involves sale and lease of digital cinema equipment to digital cinemas, in the global environment. Plans under consideration include the introduction of strategic investor (partial disposal) for GDC Technology, or a divestment plan (complete disposal), provided that the right valuation could be achieved. GDC is currently in exclusive discussions with an independent third party in relation to a possible divestment of GDC Technology. The discussions are at a preliminary stage and there is no guarantee that they will result in any agreement. As at the Latest Practicable Date, GDC Technology was a major operating subsidiary of GDC, the turnover of which accounted for approximately 77.5%, 85.8% and 80.4% of the total turnover of the GDC Group for the year ended 31 December 2003, the six months ended 30 June 2004 and the nine months ended 30 September 2004, respectively. In addition, based on the relevant unaudited management accounts of GDC Technology and GDC Technology Pte Limited, GDC Technology recorded net profits of HK\$2,253,582 for the year ended 31 December 2003, while the net loss of GDC Technology accounted for approximately 27.2% and 27.0% of the consolidated net loss of the GDC Group for the six months ended 30 June 2004 and the nine months ended 30 September 2004, respectively. GDC Technology Pte Limited, a wholly owned subsidiary of GDC Technology, recorded net profits of approximately HK\$3,937,115, SGD284,043 (equivalent to approximately HK\$1,335,002) and SGD66,819 (equivalent to approximately

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HK\$314,049) for the year ended 31 December 2003, the six months ended 30 June 2004 and the nine months ended 30 September 2004, respectively. If a divestment takes place, the turnover of GDC Technology attributable to the GDC Group may be significantly reduced. In view of the above, the Directors considered that the short term prospects of the GDC Group hinge on the success of the Film. In view of the related production costs of the Film accounted for approximately 57.3% of the total assets in the unaudited consolidated balance sheet of the GDC Group as at 30 June 2004, we concur and consider that the short term prospects of the GDC Group depends on whether the GDC Group would be able to realise the investment made on the Film especially when the divestment of GDC Technology takes place. As at the Latest Practicable Date, GDC had been negotiating with a sales agent for worldwide distribution of the Film. As further confirmed with the Directors, the Film was ready to be released to the market if a sales agent was formally appointed for the worldwide distribution of the Film, which is estimated to be by the end of 2005 subject to the market conditions. Since (i) no formal sales agreement has been signed with the sales agent; (ii) we are not sure whether the Film will be well received by the market (which depends on the tastes of the public as well as the other films showing in the market at the time of release etc.); and (iii) we are not able to predict the market conditions at the time when the Film is released to the market, we cannot ascertain at this point whether the GDC Group would be able to realise the investment made on the Film. If the Film is not successfully released to the market, the GDC Group may then need to make provision to the amount of the Film previously capitalised in the balance sheet and the net asset value of the GDC Group may be reduced in this regard. However, we are not able to quantify the amount of reduction in the net asset value as the required amount of provision depends on various factors including whether the Film will be well received in the market, which in turn depends on (i) the tastes of the public; (ii) the other films showing in the market at the time of release; (iii) the market conditions at the time when the Film is released to the market; and whether additional cost will be incurred etc.

The Directors consider that the medium and long term prospects of the GDC Group depend upon preservation and further development of its ability as one of the few studios in the world with proven capability of producing a full feature length CG movie i.e. the Film. With stronger financial backing from SCG, the Directors believe that GDC should be able to build a strong internationally oriented creative and production team, capable of making a mark in the international markets in feature movies, television series and computer and network games. Whilst the divestment of GDC Technology will deprive GDC of the major portion of its turnover in the short term, the funds derived from the divestment will on the one hand enable GDC to strengthen its financial base and on the other enable GDC to concentrate on and further develop its core business of creation of digital content. GDC Technology is at present only engaged in equipment production which is an increasingly competitive field and major investment will be needed to keep up with this continuing competition. A lot of the research and development costs had been invested in the digital cinema solutions developed by GDC Technology. The Directors advised that substantial amount of investment will continue to be required to upgrade the digital cinema products of GDC Technology and strengthening the marketing team, in order to keep up with increasingly keen competition in the market, with new but strong entrants in the market, which includes companies with long and notable standing in the film industry, such as the Eastman Kodak Company and Dolby Laboratories, Inc. The revenues previously earned by GDC Technology might be gradually replaced by revenues from digital content creation as GDC develops this core business. When the time comes for GDC to enter the digital content distribution field, it will be able to source digital cinema equipment from a highly competitive buyers' market. We are unable to comment on the medium and long term prospects of the GDC Group as this will be subject to a lot of variables in the future.

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As checked from the audited consolidated cash flow statement in the GDC Annual Report and unaudited condensed consolidated cash flow statement in the GDC Interim Report, the cash flows from operating activities for the two years ended 31 December 2003 and six months ended 30 June 2004 were negative, meaning that GDC might not be able to generate sufficient cash for its daily operation from its operating activities and the main sources of cash flows were from financing activities. In year 2003, there was IPO Proceeds and in May 2004, the GDC Group placed 20,820,000 new GDC Shares to independent placees for a net proceeds amounted to approximately HK\$8.3 million for working capital purposes. However, the bank balances and cash still decreased from approximately HK\$21.9 million as at 31 December 2003 to approximately HK\$5.6 million as at 30 June 2004 and the gearing ratio was approximately to 107.3% as at 30 June 2004. Besides, as stated in the section headed "Letter from the Board" in the Offeree Document, on 1 December 2004, SCG Finance Corporation Limited, a wholly owned subsidiary of SCG, agreed to provide to GDC an unsecured loan facility of up to an aggregate principal amount of HK\$20 million to be used solely for fulfilling GDC's working capital requirements and repayment of short-term borrowing at an annual interest rate of HK dollar prime rate plus 3%, to be repaid in full by GDC 90 days from first drawdown date of 1 December 2004. As at the Latest Practicable Date, GDC had withdrawn in aggregate of approximately HK\$13.8 million for the aforesaid purposes. The Directors advised that in case GDC was requested to repay such loan upon its maturity, GDC might engage in other financing activities for such repayment.

According to the GDC Quarterly Report, for the nine months ended 30 September 2004, the GDC Group's turnover increased by approximately 187.7% from approximately HK\$6.0 million for the nine months ended 30 September 2003 to approximately HK\$17.2 million. The increase was mainly due to increase in training fees and sales of digital cinema equipment.

The GDC Group recorded an increase in net loss of approximately 22.1% from approximately HK\$22.8 million for the nine months ended 30 September 2003 to HK\$27.8 million for the same period of year 2004. This was mainly due to increase in administrative expenses as a result of increase in the activities of the GDC Group.

Substantial administrative expenses were being incurred by the GDC Group as checked from the audited consolidated profit and loss account for the year ended 31 December 2003 and unaudited consolidated profit and loss account for the nine months ended 30 September 2004. The administrative expenses for the year ended 31 December 2003 and nine months ended 30 September 2004 amounted to approximately HK\$27.6 million and HK\$25.3 million respectively and accounted for approximately 240.9% and 147.4% of the respective turnover. Approximately HK\$9.9 million, which accounted for approximately 35.8% of the total administrative expenses for the year ended 31 December 2003 was the personnel costs, while HK\$10.3 million, which accounted for approximately 40.8% of the total administrative expenses for the nine months ended 30 September 2004 was the personnel costs. The Directors advised that the increase in personnel expenses was due to increase in number of staff as a result of increase in business activities of the Group.

As stated in the GDC Quarterly Report, the Film had received good reception in the American Film Market (which is an annual Hollywood gathering for the global motion picture industry) and notice from international distributors. The quality of the Film had attracted many potential clients in the US, Canada and the United Kingdom, for CG fee for services work. The in-house training work had attracted nationwide attention with the result that the time had come to market training

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as a separate business in the PRC. GDC Technology launched a new technology – synchronized playout for its line of DSR™ Servers. Multiple DSR™ Servers could now be configured as synchronized servers for applications in complex theatrical presentations.

The GDC Group was still considering to raise funds, as stated in the GDC Interim Report and GDC Quarterly Report, through the issue of new GDC Shares for equity capital or convertible instruments and introduction of a strategic investor for GDC Technology or a divestment of GDC Technology assuming the right valuation could be attained.

### *Overall comments*

After reviewing the financial performance of the GDC Group for the two financial years ended 31 December 2003 and nine months ended 30 September 2004 and discussing with the Directors, we noted that:

- (i) turnover of the GDC Group for the year 2003 showed a substantial increase compared with that in year 2002 due to increase in sales from digital cinema equipment. However, the GDC Group was not able to turnaround and was still suffering loss for the two financial years ended 31 December 2003 and nine months ended 30 September 2004;
- (ii) a lot of the research and development costs has been invested in the digital cinema solutions developed by GDC Technology following the successful commercialisation of the digital cinema equipment in early 2003. Substantial amount of investment will continue to be required to keep up with increasingly keen competition in the market. The GDC Group was considering the introduction of a strategic investor for GDC Technology or a divestment of GDC Technology assuming the right valuation could be achieved etc.;
- (iii) substantial administrative expenses were being incurred by the GDC Group as checked from the audited consolidated profit and loss account for the year ended 31 December 2003 and unaudited consolidated profit and loss account for the nine months ended 30 September 2004. The personnel costs accounted for a major part of the administrative expenses and increased from approximately HK\$9.9 million for the year ended 31 December 2003 to approximately HK\$10.3 million for the nine months ended 30 September 2004 due to increase in number of staff as a result of increase in business activities of the Group;
- (iv) the GDC Group was suffering from cash flow problem. As stated above, the GDC Group had accelerated the use of IPO Proceeds and was not able to finance itself from the operating activities. The main sources of funding for the year ended 31 December 2003 and six months ended 30 June 2004 were from financing activities. The Directors were still considering ways to raise additional capital to fund the operation of the GDC Group;

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- (v) a lot of GDC Group's investment was put in the production of the Film, the production costs of which were capitalised as production work in progress and accounted for approximately 57.3% of the total assets in the unaudited consolidated balance sheet of the GDC Group as at 30 June 2004. The GDC Group's short term prospects to a certain extent hinge on the success of the Film and whether it is able to realise the investment made on the Film; and
- (vi) as the GDC Group was loss making for the two financial years ended 31 December 2003 and nine months ended 30 September 2004, no dividend had been declared for the corresponding years/period. The chance for future dividend is uncertain as this depends on whether the GDC Group is able to generate sufficient profits for distribution purpose in the future.

### 2. Business and financial performance of the SCG Group

SCG is a Hong Kong-listed company incorporated in Bermuda. The principal activity of SCG is investment holding. The principal activities of the subsidiaries of SCG consist of property investment and management. SCG was listed on the Main Board of the Stock Exchange on 8 August 1991.

The table below sets out the consolidated financial information of the SCG Group for the two years ended 31 December 2003, the six months ended 30 June 2003 and the six months ended 30 June 2004, which are extracted from the relevant interim and annual reports of SCG for the relevant year/periods:

	<b>(Unaudited)</b> <b>Six months ended</b>		<b>(Audited)</b> <b>Year ended</b>	
	<b>30 June</b>		<b>31 December</b>	
	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>
				<b>(restated)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	8,162	7,577	15,470	15,661
Profit / (Loss) attributable to the shareholders	83,701	(3,297)	28,481	2,786
Profit / (Loss) per SCG Share (HK cents)	9.17	(0.39)	3.34	0.34
Dividend paid	374,740	—	—	—
Total assets of the SCG Group	464,158	752,233	754,165	711,928
Net assets of the SCG Group	343,246	630,819	631,955	619,694

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As stated in the 2002 annual report of SCG, rental rate continued to decline in the year 2002 due to the continuous sluggishness of the property leasing market in Hong Kong. However, with the SCG Group's dedicated efforts and revised leasing strategies, the occupancy rates of its Hong Kong investment properties had begun to pick up slightly by the end of the year 2002. For the SCG Group's rental business in the PRC, the rental revenue was reduced due to closing down of certain leasing properties for renovation.

SCG Group's turnover showed a slight decrease of approximately 1.2% from approximately HK\$15.7 million in year 2002 to approximately HK\$15.5 million in year 2003. The net profit for the year recorded a substantial increase of approximately 922.3% in year 2003 from approximately HK\$2.8 million in year 2002 to approximately HK\$28.5 million in year 2003. The significant increase was mainly attributable to exceptional gain on deemed disposal of approximately HK\$28.3 million arising from the dilution of SCG's interest in Shougang Concord Technology Holdings Limited ("SCT"), SCG's associated company.

The total assets of the SCG Group increased by approximately 5.9% from approximately HK\$711.9 million as at 31 December 2002 to approximately HK\$754.2 million as at 31 December 2003; while its net assets increased by approximately 2.0% from approximately HK\$619.7 million to approximately HK\$632.0 million over the same period.

As stated in 2003 annual report of SCG, due to the outbreak of Severe Acute Respiratory Syndrome and the sluggishness of the property leasing market, the rental rate experienced a severe downward adjustment in the first half of 2003 and the tenancies of the SCG Group's Hong Kong investment properties had been renewed at lower rates. Despite of that, the SCG Group managed to maintain roughly the same rental income as that in 2002 due to an increase in the occupancy rate of the SCG Group's investment properties in Hong Kong throughout the year 2003. SCG Group's occupancy rate increased from approximately 73% in 2002 to approximately 84% in 2003. Besides, the rental business in the PRC was also impacted by the effect of SARS in year 2003 and renovation on the leasing properties.

According to the 2004 interim report of SCG (the "SCG Interim Report"), for the six months ended 30 June 2004, the SCG Group's turnover increased by approximately 7.7% from approximately HK\$7.6 million for the six months ended 30 June 2003 to approximately HK\$8.2 million for the six months ended 30 June 2004.

The SCG Group recorded a net profit of approximately HK\$83.7 million for the six months ended 30 June 2004 compared to a net loss of approximately HK\$3.3 million for the same period of year 2003. The substantial profit, as stated in the SCG Interim Report, was mainly attributable to the exceptional gain on deemed disposal of approximately HK\$189.2 million arising from the distribution in specie of SCG Group's entire shareholding in SCT (the "Distribution").

For the six months ended 30 June 2004, the total assets of the SCG Group decreased by approximately 38.0% from approximately HK\$754.2 million as at 31 December 2003 to approximately HK\$464.2 million as at 30 June 2004; while its net assets decreased by approximately 45.7% from approximately HK\$632.0 million to approximately HK\$343.2 million over the same period. The decrease in total assets and net assets were mainly due to the Distribution and share of an impairment loss of approximately HK\$90 million in respect of SCG's share of net assets and goodwill in a jointly controlled entity, Beijing Dongzhimen International Apartments Co., Ltd..

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It was further stated in the SCG Interim Report that, with a recovering economy and property market, the rental market had improved since the beginning of 2004. The SCG Group recorded an increase of 5% in the rental income by comparing to the same period in 2003. It was reported that, the SCG Group had entered into agreements, subsequent to 30 June 2004, to dispose of (i) an industrial property at HK\$40 million, which represented a net gain of approximately HK\$6.6 million to the SCG Group; and (ii) another industrial property at HK\$100.8 million, which represented a net loss of approximately HK\$15.3 million to the SCG Group. The directors of SCG considered that by disposing of these industrial properties, SCG Group's resources could be better applied in other investment opportunities that offered a higher return to the shareholders of SCG. In addition, the SCG Group also entered a subscription agreement dated 9 September 2004 to which the SCG Group would acquire a 40% interest in South China International Leasing Company, Limited, a sino-foreign joint venture in Shenzhen, which is principally engaged in the provision of financial leasing at a consideration of approximately US\$1.7 million. The directors of SCG considered that the acquisition would provide the SCG Group with an opportunity to participate in the growth prospects of the financial leasing business on Mainland China and branch into the financial services sector.

### *Overall comments*

- (i) due to the gradual recovery in the property market, the rental income of the SCG Group starts to pick up from 2004 onwards;
- (ii) despite the sluggishness of the property leasing market in 2003, the SCG Group was able to maintain its net profit by deemed disposal of its interest in SCT in 2003; however, this profit is only one-off and may not recur in the future;
- (iii) continuous efforts were made by the directors of SCG to diversify the business and income stream of the SCG Group; and
- (iv) on 13 February 2004, the directors of SCG declared to distribute special dividend to be satisfied by the distribution in specie of the SCG Group's entire shareholding in SCT. Total dividend paid amounted to approximately HK\$374.7 million.

### **3. Future prospects of the Enlarged Group and the GDC Group and intention of the Offeror**

As stated above, the SCG Group and the GDC Group are engaged in two distinct lines of businesses. The principal activity of SCG is investment holding. The principal activities of the subsidiaries of SCG consist of property investment and management. The GDC Group is a provider of an integrated value chain in the digital content business which encompasses computer graphics creation and production, distribution and exhibitions of digital content, and training of computer graphics artists in the Asia Pacific region.

According to the press release titled "Economic Situation in the Second Quarter of 2004 and Updated GDP and Price Forecasts for 2004" issued by the Government of the Hong Kong Special Administrative Region of the PRC on 27 August 2004 in [www.info.gov.hk](http://www.info.gov.hk), trading activities in the property market consolidated in the second quarter of 2004, albeit still well above the quarterly

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average in 2003. Flat prices were still 25% above the trough in July 2003. Notwithstanding the recent consolidation and concern about US interest rate rise, the general market sentiment remained cautiously optimistic. Flat rentals continued to firm up in line with the reviving leasing demand. Leasing demand for office space also strengthened further amid the economic upturn. The market for shopping space stayed active, as inbound tourism remained buoyant and local consumer spending picked up further. It seems that the property market is now at the verge of recovery and may pick up sooner or later.

Regarding the digital content business engaged by the GDC Group, the Directors considered that the provision of digital cinema technologies and solution business required substantial capital expenditures for the upgrading of the related technology and marketing team in order to keep up with increasingly keen competition in the market. In relation to the CG content creation business, the Directors advised that the GDC Group had experienced a longer period of preparation and not much revenue had been brought in to the GDC Group by the CG content creation business as at the Latest Practicable Date. However, the Directors are confident that the GDC Group would emerge from this long period of preparation as a sustainable CG house in the international market place in the light of the financial backing which GDC will receive from the Enlarged Group.

As stated in “中國電影報產業周刊” issued on 13 January 2005 in the PRC, the number of digital cinema screens in the PRC increased from 34 at the beginning of year 2004 to 160 at the beginning of 2005. Despite the number of digital cinema screens only accounted for approximately 2% of the ordinary cinema screens in the PRC, the revenue from them amounted to approximately 15% of that of the total ticket offices.

Although the Directors consider that the business of the GDC Group is viable and are confident on the prospect, additional resources are required to meet the increasingly keen competition in the market. The Directors consider that the strong financial backing from SCG is beneficial to the future development of the GDC Group and would help to improve the cash flow of the GDC Group. The Directors had considered alternative ways of financing, including placing of GDC Shares, but considered such was not appropriate as the pricing might not be attractive. Besides, the Directors also expect that SCG would bring in management expertise to the GDC Group and strengthen its financial management and internal controls. As noted from the 2003 annual report of SCG, the two directors proposed to be appointed to the board of GDC have extensive experience in investing business, corporate management and operation.

As stated in the Offer Document, the directors of SCG believed that the multimedia sector in the PRC offered promising prospects. Given the recent success of various animation films globally and the increasing disposable income of PRC citizens, the SCG Group had considered to invest in certain projects in this sector and has set up a film production company in the PRC, which was mainly engaged in the production of films and TV program in the PRC as understood from the management of SCG upon our further enquiry. The directors of SCG considered the Offers were in line with the current strategy of SCG, and that the investment in GDC would signify a meaningful step towards this direction and provide the Enlarged Group with a solid platform for its diversification. Taking account of the expertise of GDC in the computer graphics and multimedia sector, we consider that the investment in GDC would provide the Enlarged Group with a solid platform for its diversification.

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The Directors note that the proposed investment in GDC by way of the Share Exchange Offer could offer an opportunity for GDC and SCG to build a common platform and enlarge the presence of both companies in the multimedia industry. As an integrated multimedia company with an established international profile and a strong technology exposure, GDC could create value to SCG in a wide spectrum of areas ranging from strong technical know-how and industry intelligence to international market presence. The Directors also believe that GDC could leverage on the corporate profile and strong financial position of SCG in its future business development.

We consider that as the Share Exchange Offer provides an opportunity for the GDC Shareholders to swap its investment in GDC for new SCG Shares, the Share Exchange Offer effectively represents a merger of the business operation of SCG with that of GDC.

If the Offers become unconditional, each GDC Independent Shareholder will, if and to the extent that he accepts the Share Exchange Offer, continue to have an indirect interest in GDC through his shareholding in SCG. However, GDC Independent Shareholders should note that, by accepting the Share Exchange Offer, their effective interests in GDC would be diluted.

As mentioned in the sub-paragraph headed “Intention of the Offeror in relation to GDC Group” in the “Letter from the Board” set out in the Offeree Document, SCG did not intend to make any changes to the current business operations of GDC, apart from the appointment of directors stated under the sub-paragraph headed “Appointment of Directors” in the section headed “Letter from the Board” set out in the Offeree Document.

The directors of SCG believe that the Enlarged Group would be beneficial to both the shareholders of SCG and GDC by combining the expertise of GDC in the computer graphics and multimedia sector with the strong business connections of SCG, and SCG will explore ways to further GDC’s business in the PRC. We consider that if GDC and SCG would be able to better utilise their own resources, by combining the expertise of GDC in the computer graphics and multimedia sector with the strong business connections of SCG, SCG would be able to help GDC to further business in the PRC, while the business of GDC might help SCG to diversify its own business. Shareholders should note that it is currently difficult to assess the effects and outcomes of such synergy as there is currently no concrete plan.

#### **4. Financial effects to the GDC Independent Shareholders after completion of the Offers**

As at the Latest Practicable Date, there were 397,232,712 GDC Shares held by the GDC Independent Shareholders which in aggregate accounted for approximately 49.6% of the issued share capital of GDC, based on 800,820,000 GDC Shares in issue as at the Latest Practicable Date. On the basis of full acceptance of the Share Exchange Offer, the GDC Independent Shareholders will hold in aggregate approximately 119,169,813 SCG Shares upon completion of the Offers, representing approximately 10.1% of the issued share capital of SCG, based on 1,179,562,667 SCG Shares as enlarged by the issue of the new SCG Shares under the Share Exchange Offer. GDC will become a wholly owned subsidiary of SCG if the Offers become unconditional. Therefore, although each GDC Independent Shareholder will, if and to the extent that he accepts the Share Exchange Offer, continue to have an indirect interest in GDC through his shareholding in SCG if the Offers become unconditional, his effective interest in the GDC Group will be diluted. The effective interests in the GDC Group of the GDC Independent Shareholders will be decreased from approximately 49.6% to approximately 10.1% on the basis of full acceptance of the Share Exchange offer.

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We further analyse the effects to the GDC Independent Shareholders if they accept the Share Exchange Offer in terms of the net asset values of the GDC Group and the Enlarged Group respectively. Based on the unaudited condensed consolidated balance sheet of the GDC Group for the six months ended 30 June 2004, the net asset value attributable to shareholders for every 10 GDC Shares and every GDC Share held as at the Latest Practicable Date was approximately HK\$0.72 and HK\$0.072 respectively. Upon completion of the Offers, GDC will become a subsidiary of SCG. According to the information as contained under the section headed “Unaudited pro forma financial information of the Enlarged Group” contained in the Offer Document, based on full acceptance of the Share Exchange Offer, the unaudited consolidated net asset value attributable to every 3 SCG Shares and every SCG Share amounted to approximately HK\$1.23 and HK\$0.41 respectively based on 1,179,562,667 SCG Shares as enlarged by the issue of the new SCG Shares under the Share Exchange Offer.

It can be seen from the above that there is an improvement in the attributable net asset value if the GDC Independent Shareholders exchange their GDC Shares for the SCG Shares. Besides, since SCG Group was profit making for the past two years, by accepting the Share Exchange Offer, the GDC Independent Shareholders may be able to share the future profits of the Enlarged Group.

### 5. Basis of consideration of the Share Exchange Offer

#### *Historical price performance*

The Share Offer Price and LPD Share Offer Price of approximately HK\$0.17 per GDC Share represent:

		Price HK\$	Premium of Share Offer Price and LPD Share Offer Price %
(i)	closing price of GDC Shares as quoted on the Stock Exchange on the Last Trading Day	0.115	47.8
(ii)	average closing price of GDC Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day	0.128	32.8
(iii)	average closing price of GDC Shares as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day	0.128	32.8
(iv)	average closing price of GDC Shares as quoted on the Stock Exchange for the three months period up to and including the Last Trading Day	0.153	11.1
(v)	closing price of GDC Shares as quoted on the Stock Exchange as at the Latest Practicable Date	0.130	30.8

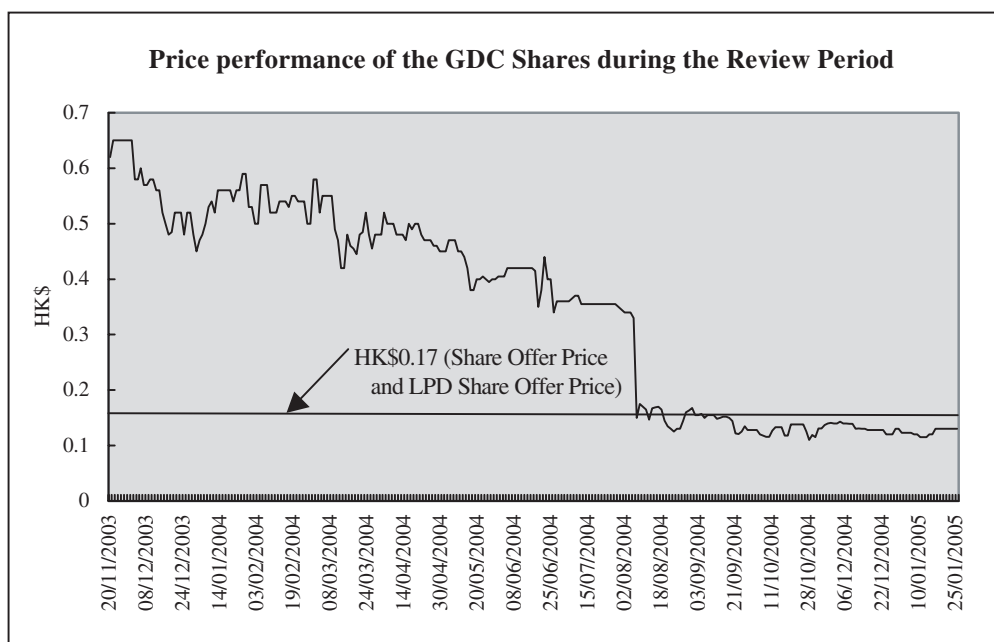
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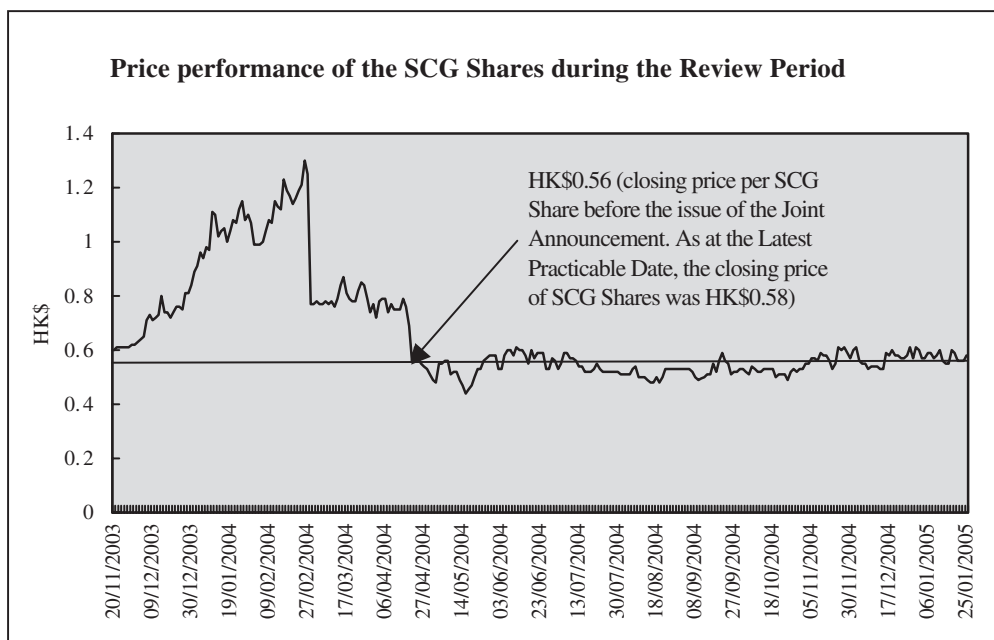
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As can be seen above, the Share Offer Price and LPD Share Offer Price generally represent premia over the closing prices of the GDC Shares as quoted from the Stock Exchange up to and including the Latest Practicable Date.

The charts below show the daily closing price of the GDC Shares and the SCG Shares during the period from 20 November 2003 up to the Latest Practicable Date, excluding those days on which the GDC Shares and the SCG Shares were suspended for trading (the “Review Period”).



Source: [www.hkex.com.hk](http://www.hkex.com.hk)



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

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We summarise below the highest and the lowest closing prices of the GDC Shares and the SCG Shares during the Review Period:

*GDC Shares*

Month	Highest closing price during the month HK\$	Lowest closing price during the month HK\$	Closing price at the end of the month/ period HK\$
<b>2003</b>			
November (from 20 November)	0.650	0.620	0.65
December	0.650	0.480	0.48
<b>2004</b>			
January	0.590	0.450	0.530
February	0.580	0.500	0.580
March	0.580	0.420	0.520
April	0.500	0.450	0.450
May	0.470	0.380	0.405
June	0.440	0.340	0.360
July	0.370	0.340	0.340
August	0.340	0.125	0.168
September	0.157	0.121	0.128
October (up to and including the Last Trading Day)	0.138	0.110	0.115
November (from 22 November)	0.141	0.131	0.140
December	0.143	0.120	0.123
<b>2005</b>			
January (up to the Latest Practicable Date)	0.130	0.115	0.130

*Source: [www.hkex.com.hk](http://www.hkex.com.hk)*

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### *SCG Shares*

Month	Highest closing price during the month HK\$	Lowest closing price during the month HK\$	Closing price at the end of the month/ period HK\$
<b>2003</b>			
November (from 20 November)	0.62	0.60	0.62
December	0.89	0.62	0.89
<b>2004</b>			
January	1.15	0.91	1.07
February	1.30	0.99	1.25
March	0.87	0.72	0.72
April	0.79	0.49	0.49
May	0.58	0.44	0.58
June	0.61	0.53	0.56
July	0.59	0.52	0.52
August	0.54	0.48	0.53
September	0.59	0.49	0.53
October	0.54	0.49	0.52
November (from 1 November to 15 November)	0.59	0.53	0.56
November (from 22 November)	0.61	0.53	0.57
December	0.61	0.53	0.61
<b>2005</b>			
January (up to the Latest Practicable Date)	0.60	0.55	0.58

*Source: www.hkex.com.hk*

During the Review Period, the highest closing price of the GDC Shares quoted on the Stock Exchange was HK\$0.65 on 21, 24-28 November, and 1 December 2003 and the lowest closing price of the GDC Shares quoted on the Stock Exchange was HK\$0.11 on 27 October 2004. The Share Offer Price and LPD Share Offer Price of approximately HK\$0.17 stands above, and represents a premium of approximately 54.5% to, the lowest closing price of HK\$0.11 per GDC Share during the Review Period. On the other hand, the Share Offer Price and LPD Share Offer Price of approximately HK\$0.17 fall below, and represent a discount of approximately 73.8% to, the highest closing price of HK\$0.65 per GDC Share during the Review Period. The trading of the GDC Shares on the Stock Exchange was suspended on 1 November 2004 and resumed on 22 November 2004, after which and up to the Latest Practicable Date, the GDC Shares were traded within a range of HK\$0.115 and HK\$0.141, which were generally below the Share Offer Price and the LPD Share Offer Price. The sudden drop in prices of GDC Shares in August 2004 was mainly due to the disposal of approximately 8.3 million GDC Shares by the then chief technology officer of GDC at prices ranging from HK\$0.31 to HK\$0.15 per GDC Share on 5 August 2004 and the

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disposal of approximately 10.3 million GDC Shares by Mr. Christopher Paul Neoh, the younger brother of Mr. Anthony Francis Neoh and the elder brother of Mr. Raymond Dennis Neoh (both in turn being Directors and management shareholders of GDC), at prices ranging from HK\$0.29 to HK\$0.15 per GDC Share on 5 August 2004. These two disposals added up to approximately 81.77% of the total transaction volume of approximately 22.7 million GDC Shares recorded on 5 August 2004.

During the Review Period, the highest closing price of the SCG Shares quoted on the Stock Exchange was HK\$1.3 on 26 February 2004 and the lowest closing price of the SCG Shares quoted on the Stock Exchange was HK\$0.44 on 17 May 2004. The trading of the SCG Shares on the Stock Exchange was suspended on 16 November 2004 and resumed on 22 November 2004, after which and up to the Latest Practicable Date, the SCG Shares were traded within a range of HK\$0.53 and HK\$0.61, which were generally maintained at a level close to the closing price of HK\$0.56 per SCG Shares as quoted on the Stock Exchange before the issue of the Joint Announcement.

Although the Share Offer Price and LPD Share Offer Price of approximately HK\$0.17 falls below, and represents a discount of approximately 73.8% to, the highest closing price of HK\$0.65 per GDC Share during the Review Period, taking into account (i) the trading performance of the GDC Shares in the recent months; and (ii) the highest closing prices of HK\$0.65 per GDC Share were recorded a year ago, it might be difficult for GDC Shares to return to such a high level of prices in the near future. The closing prices of GDC Shares had been declining and trading below the Share Offer Price and LPD Share Offer Price since 9 August 2004 and up to the Latest Practicable Date. Given that the Share Offer Price and LPD Share Offer Price generally represent premia over the closing prices of the GDC Shares as quoted on the Stock Exchange since 9 August 2004 and up to the Latest Practicable Date, we consider that Share Exchange Offer is fair and reasonable so far as the GDC Independent Shareholders are concerned.

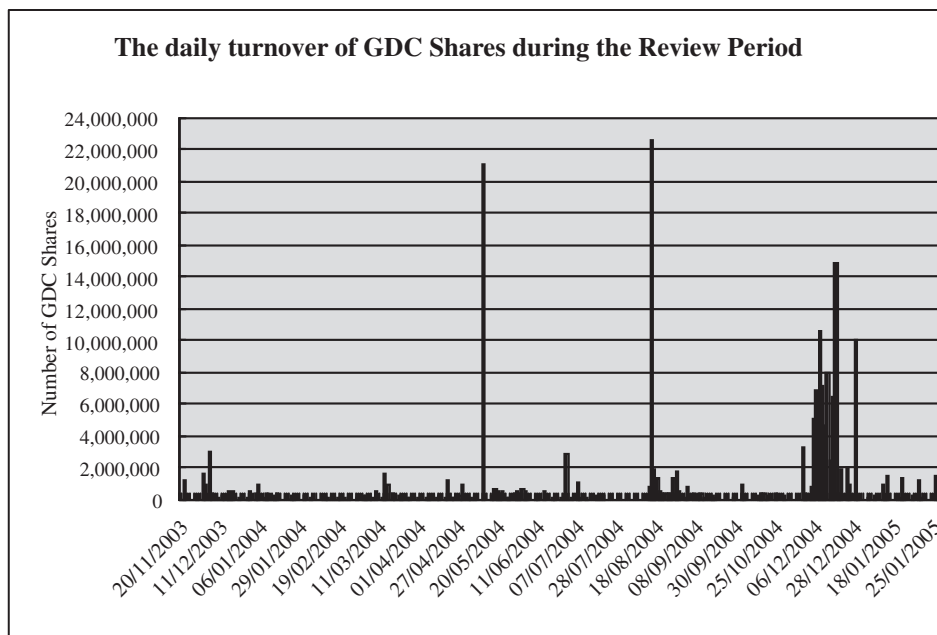
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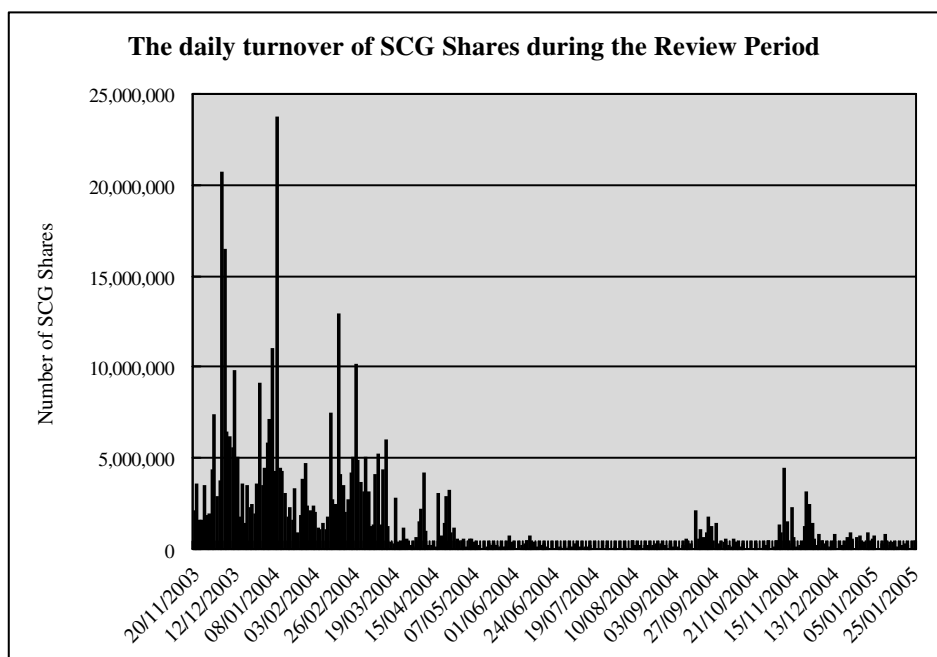
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### *Liquidity*

The following charts set out the daily turnover of the GDC Shares and the SCG Shares on the Stock Exchange during the Review Period:



Source: [www.hkex.com.hk](http://www.hkex.com.hk)



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

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The following tables summarise (i) the highest daily turnover; (ii) the lowest daily turnover; (iii) the average daily turnover of the relevant shares; (iv) the percentage of average daily turnover as compared with the total number of relevant shares in issue as at the Latest Practicable Date; and (v) the percentage of average daily turnover as compared with the total number of relevant shares held by the GDC Other Shareholders (as defined below) or the SCG Other Shareholders (as defined below) (as the case may be) as at the Latest Practicable Date, during the Review Period:

### *GDC Shares*

Month	Highest daily turnover (number of GDC Shares)	Lowest daily turnover (number of GDC Shares)	Average daily turnover (number of GDC Shares)	Percentage of average daily turnover to total number of GDC Shares in issue (%) (Note 1)	Percentage of average daily turnover to number of GDC Shares held by the GDC Other Shareholders (%) (Note 2)
<b>2003</b>					
November (from 20 November)	1,194,000	0	204,857	0.03%	0.06%
December	2,986,000	0	426,952	0.05%	0.13%
<b>2004</b>					
January	1,000,000	0	137,474	0.02%	0.04%
February	200,000	0	45,600	0.01%	0.01%
March	1,600,000	0	220,000	0.03%	0.07%
April	1,152,000	0	194,842	0.02%	0.06%
May	21,066,000	0	1,461,500	0.18%	0.43%
June	2,918,000	0	269,100	0.03%	0.08%
July	200,000	0	20,286	0.003%	0.006%
August	22,660,519	0	1,547,106	0.19%	0.45%
September	940,000	0	87,905	0.01%	0.03%
October (up to and including the Last Trading Day)	3,200,000	0	333,684	0.04%	0.10%
November (from 22 November)	10,526,000	2,400,000	6,381,913	0.80%	1.87%
December	14,862,654	0	1,798,194	0.22%	0.53%
<b>2005</b>					
January (up to the Latest Practicable Date)	1,500,000	0	298,471	0.04%	0.09%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

### *Notes:*

- Based on 800,820,000 GDC Shares in issue as at the Latest Practicable Date.
- Based on 341,288,610 GDC Shares held by the GDC Shareholders other than Upflow Holdings Limited, Sotas Limited and the GDC Directors (the "GDC Other Shareholders") as at the Latest Practicable Date.

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## SCG Shares

Month	Highest daily turnover (number of SCG Shares)	Lowest daily turnover (number of SCG Shares)	Average daily turnover (number of SCG Shares)	Percentage of average daily turnover to total number of SCG Shares in issue (%) (Note 1)	Percentage of average daily turnover to number of SCG Shares held by the SCG Other Shareholders (as defined below) (%) (Note 2)
<b>2003</b>					
November (from 20 November)	3,527,000	1,576,000	2,285,000	0.24%	0.70%
December	20,667,000	1,419,000	5,763,451	0.61%	1.76%
<b>2004</b>					
January	23,737,250	882,000	4,869,311	0.52%	1.49%
February	12,877,000	1,069,000	3,808,218	0.41%	1.16%
March	5,963,000	15,000	2,000,935	0.21%	0.61%
April	4,146,000	0	1,275,789	0.14%	0.39%
May	722,000	0	211,600	0.02%	0.06%
June	671,000	0	139,452	0.01%	0.04%
July	251,000	0	62,524	0.01%	0.02%
August	417,500	0	133,425	0.01%	0.04%
September	2,059,000	0	544,250	0.06%	0.17%
October	540,000	0	162,632	0.02%	0.05%
November (from 1 November to 15 November)	4,376,000	46,000	1,078,182	0.11%	0.33%
November (from 22 November)	3,103,000	87,000	1,266,000	0.13%	0.39%
December	899,000	0	374,568	0.04%	0.11%
<b>2005</b>					
January (up to the Latest Practicable Date)	802,000	0	227,662	0.02%	0.07%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

### Notes:

- Based on 939,316,667 SCG Shares in issue as at the Latest Practicable Date.
- Based on 327,022,598 SCG Shares held by the shareholders of SCG other than Shougang Holding, Cheung Kong and the SCG Directors (the "SCG Other Shareholders") as at the Latest Practicable Date.

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As shown in the above tables, the trading volume of GDC Shares in each month during the Review Period (before the announcement of the Offers) was extremely thin with the highest average turnover representing (i) only approximately 0.19% of the total GDC Shares in issue as at the Latest Practicable Date; and (ii) only approximately 0.45% of GDC Shares held by the GDC Other Shareholders. The increase in the trading volume of GDC Shares in May 2004 was mainly due to GDC conducted a top-up placing exercise of 20,820,000 GDC Shares as announced by GDC on 5 May 2004. After GDC Shares were resumed in trading on the Stock Exchange on 22 November 2004 and up to the Latest Practicable Date, the highest average turnover represented approximately (i) 0.8% of the total GDC Shares in issue as at the Latest Practicable Date; and (ii) 1.87% of GDC Shares held by the GDC Other Shareholders. The relatively higher turnover of the GDC Shares from 22 November 2004 up to the Latest Practicable Date is likely to be boosted by the announcement of the Offers. In addition, during the Review Period, there were 113 trading days out of a total of 276 trading days on which no trading of the GDC Shares on the Stock Exchange was recorded, indicating a lack of public interest in dealing in the GDC Shares.

In view of the illiquidity, Shareholders may find it difficult to dispose of the GDC Shares without exerting downward pressure on the share prices of the GDC Shares.

Liquidity for the SCG Shares was also thin but relatively better than that for GDC Shares during the Review Period (before the announcement of the Offers) with the highest average turnover representing (i) approximately 0.61% of the total SCG Shares in issue as at the Latest Practicable Date; and (ii) approximately 1.76% of SCG Shares held by the SCG Other Shareholders. After the SCG Shares were resumed in trading on the Stock Exchange on 22 November 2004 and up to the Latest Practicable Date, the highest average turnover represented approximately (i) 0.13% of the total SCG Shares in issue as at the Latest Practicable Date; and (ii) 0.39% of SCG Shares held by the SCG Other Shareholders. In addition, during the Review Period, there were only 25 trading days out of a total of 287 trading days on which no trading of the SCG Shares on the Stock Exchange was recorded, which further indicated that the liquidity of SCG Shares was generally better than that of GDC Shares. This may also be partly due to SCG Shares are listed on the Main Board of the Stock Exchange, which generally offered better liquidity to shares compared with GEM, on which GDC Shares are listed.

### *Valuation of the Share Offer Price*

Given that GDC incurred losses for the two years ended 31 December 2003 and nine months ended 30 September 2004, the use of price earning approach for the valuation of the Share Offer Price and LPD Share Offer Price was not applicable. Therefore we adopt net asset value approach as an alternative.

We are only able to identify one company other than GDC listed on the Stock Exchange whose business is engaged in computer graphics creation and production, Imagi International Holdings Limited (“Imagi”) (stock code: 585). Set out below is a table comparing the premium/(discount) of the respective share price over/to the latest available net asset value of Imagi shares (“Imagi Share(s)”) and GDC Shares.

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## LETTER FROM FIRST SHANGHAI

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Company	Share prices	Latest published net asset value per share	Premium/(Discount) of the closing share price over/to the latest published net asset value per share %
Imagi	0.91 (Note 1)	1.55 (Note 2)	(41.3)
GDC	0.17 (Note 3)	0.07 (Note 4)	142.9

*Sources: 2004/2005 interim report of Imagi and the GDC Interim Report.*

*Notes:*

1. as at the Latest Practicable Date.
2. according to audited net asset value of approximately HK\$361.5 million as at 30 September 2004 and based on 233,705,500 shares in issue as at that date.
3. being the Share Offer Price and LPD Share Offer Price.
4. according to unaudited net asset value of approximately HK\$57.5 million as at 30 June 2004 as shown in the 2004 interim report of GDC and based on 800,820,000 GDC Shares in issue as at the Latest Practicable Date.

As shown above, Imagi was traded at an approximately 41.3% discount to its latest published unaudited net asset value per share as at 30 September 2004 while the Share Offer Price and the LPD Share Offer Price represent an approximately 142.9% premium over the latest published unaudited net asset value per GDC Share as at 30 June 2004 based on the GDC Interim Report. We consider the Share Exchange Offer to be fair and reasonable so far as the GDC Independent Shareholders are concerned.

### *Recent deals*

In order to assess the fairness and reasonableness of the Share Offer Price and LPD Share Offer Price by reference to the market price of the GDC Shares, we have identified all general offer for companies listed on GEM in 2004 from [www.hkgem.com](http://www.hkgem.com) (the “Recent Offers”), which show a comparison between the respective offer prices and the Latest Trade Price (as defined below) of the respective shares as quoted on the Stock Exchange. We have included the Recent Offers for reference purpose only as they differ in various perspectives, such as principal activities, market capitalization, background etc.

## LETTER FROM FIRST SHANGHAI

Set out below is a summary of the comparison of the Recent Offers :

Company (stock code)	Date of announcement/ closing date of the general offer	Principal activities	Market capitalization as at the Latest Practicable Date  <i>HK\$' million</i>	Offer price per share  <i>HK\$</i>	Closing price as at the preceding trading day prior to the announcement date (the "Latest Trade Price")  <i>HK\$</i>	Net asset value / (deficit) per share based on the latest financial report prior to the offer (Note 1)  <i>HK\$</i>	Premium/ (Discount) of offer price over/to the  Latest Trade Price  %	Net asset value  %	Price/ earnings multiple (Note 2)
GP NanoTechnology Group Limited (8152)	20 August 2003/ 6 January 2004	manufacture and sale of nanomaterials for use as fillers in different industrial applications such as the manufacturing of plastic and rubber products	18.00	0.01	0.036	0.11	(72.2)	(90.9)	N/A
Computech Holdings Limited (8081)	13 November 2003/ 12 January 2004	research, development and sales of banking packaged software products; provision of software related consultancy and technical services and system integration services	6.72	0.0666	0.22	0.0659	(69.7)	1.1	N/A
AGL MediaTech Holdings Limited (8192)	17 December 2003/ 2 February 2004	providing on-line rich media and content distribution solution in Hong Kong, developing products and technologies for on-line rich media and content distribution using the tools and solutions developed by it	21.31	0.04	0.4	0.017	(90.0)	135.3	N/A
M Channel Corporation Limited (8036)	6 November 2003/ 13 February 2004	engaged in the out-of-home audio and video media business under the brand name "M Channel" in Hong Kong and the PRC	28.64	0.015	0.025	0.032	(40.0)	(53.1)	N/A
China Advance Holdings Limited (formerly known as Billybala Holdings Limited) (8117)	30 January 2004/ 17 March 2004	provision of arcade game-on-demand service via the Internet through turning existing arcade games into online version together with game-on- demand and multiplayer features in the Greater China Region	38.44	0.0257	0.53	0.0075	(95.2)	242.7	N/A

# LETTER FROM FIRST SHANGHAI

Company (stock code)	Date of announcement/ closing date of the general offer	Principal activities	Market capitalization as at the Latest Practicable Date	Offer price per share	Closing price as at the preceding trading day prior to the announcement date (the "Latest Trade Price")	Net asset value / (deficit) per share based on the latest financial report prior to the offer (Note 1)	Premium/ (Discount) of offer price over/to the Latest Trade Price	Net asset value	Price/ earnings multiple (Note 2)
			HK\$' million	HK\$	HK\$	HK\$	%	%	
Cyber On-Air Group Company Limited (8118)	8 March 2004/ 27 May 2004	application solutions, network solutions, project services, engineering services, recruitment services, content licensing and IT services	1,659.13	1	7.2	(0.55)	(86.1)	281.8	N/A
Byford International Limited (8272)	7 July 2004/ 18 August 2004	sourcing, sale and distribution of men's innerwear and socks under the Byford brandname	94	0.5	0.46	0.155	8.7	222.6	11.3
Rojam Entertainment Holdings Limited (8075)	4 November 2004/ 24 December 2004	music production and publishing; trademark licensing; record distribution; artiste and event management; operation of music entertainment portal and music learning centre	139.92	0.11 (Note 3)	0.105	0.15	4.8	(26.7)	22
GDC	19 November 2004/ 15 February 2005 (being the first closing date)	CG creation and production distribution and exhibitions of digital content, and training of CG artists in the Asia Pacific region	104.11	0.17 (being the Share Offer Price and LPD Share Offer Price)	0.115	0.07	47.8	142.9	N/A

Sources: [www.hkgem.com](http://www.hkgem.com)

## Notes:

- Based on the net asset values and number of shares in issue as at the respective financial year/period end date as stated in the latest financial reports of the respective companies issued prior to the announcement of the offers.
- Being the offer price divided by basic earnings per share as stated in the latest annual reports of the respective companies issued prior to the announcement of the offers.

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## LETTER FROM FIRST SHANGHAI

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3. As stated in the composite offer and response document of Rojam Entertainment Holdings Limited dated 3 December 2004, on the basis of the financial performance of Fandango, Inc. ("Fandango") for the three years ended 31 March 2004 and the net asset value of Fandango as at 31 October 2004, the shares of Fandango (the "Fandango Share(s)") were valued at Yen 500 per share, which was equivalent to approximately HK\$36.6 per Fandango Share. On the basis of the offer of 3 new Fandango Shares for every 1,000 shares in Rojam Entertainment Holdings Limited (the "Rojam Share(s)"), each Rojam Share was therefore valued at approximately HK\$0.11.

As can be seen from the above, except the general offer for Byford International Limited and Rojam Entertainment Holdings Limited which recorded a premium over the respective Latest Trade Price of approximately 8.7% and 4.8% respectively, all the other offer prices were at discount to the Latest Trade Price. The premia represented by the Share Offer Price and the LPD Share Offer Price over the Latest Trade Price were also substantially higher than that for Byford International Limited and Rojam Entertainment Holdings Limited. Besides, the premium/discount of offer price over/to the net asset value of the Recent Offers ranged from (90.9)% to 281.8%. The Share Offer Price and LPD Share Offer Price represented approximately 142.9% over the net asset value of GDC as at 30 June 2004 and such premium fell within the range of that of the Recent Offers. We consider the Share Exchange Offer to be fair and reasonable so far as the GDC Independent Shareholders are concerned.

### **6. Compulsory acquisition**

If the Offeror and SCG acquires the prescribed percentage of GDC Shares as required by the relevant provisions of the Companies Act and the Takeovers Code, the Offeror and SCG may consider exercising the compulsory acquisition powers thereunder.

As at the Latest Practicable Date, the Offeror and SCG had not decided, in the event that they were permitted to do so under the Companies Act and the Takeovers Code, whether to effect the compulsory acquisition of GDC. In addition, the Offeror and SCG had not decided on whether to maintain the listing of GDC on GEM. Further announcement will be made in this respect accordingly.

If the level of acceptances reaches the prescribed level under the Companies Act and the Takeovers Code which permits a compulsory acquisition and the Offeror and SCG proceeds with the privatization of the GDC, dealings in the GDC Shares would be suspended from the eventual closing date of the Offers and the listing of the GDC Shares would be withdrawn from the Stock Exchange.

### **7. The Option Offer**

As at the Latest Practicable Date, GDC has 22,631,615 outstanding GDC Options, out of which Sotas Limited has been granted an option to subscribe for 8,331,615 new GDC Shares exercisable within 36 months from the date of listing of GDC Shares on 4 August 2003 (i.e. the Sotas Options). The exercise in full of the 22,631,615 GDC Options would result in the issue of additional 22,631,615 GDC Shares (representing approximately 2.75% of the enlarged issued share capital of GDC as enlarged by the issue of the GDC Shares pursuant to the exercise of the GDC Options). The remaining 14,300,000 GDC Options shall be exercisable on or before 17 July 2013.

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## LETTER FROM FIRST SHANGHAI

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We have considered the following: (1) as the exercise prices for the outstanding GDC Options ranging from HK\$0.44 to HK\$0.56 per GDC Option, representing approximately 282.6% to 387.0% over the closing price of the GDC Shares of HK\$0.115 as quoted on the Stock Exchange on the Last Trading Day and approximately 238.5% to 330.8% over the closing prices of the GDC Shares of HK\$0.13 as quoted on the Stock Exchange as at the Latest Practicable Date, the GDC Options are thus currently deeply “out of money” and therefore, the Option Offer price is set at a nominal value of HK\$0.01 in cash per GDC Option; and (2) our previous analysis on the fairness and reasonableness of the Share Exchange Offer.

In light of the above, we consider the terms of the Option Offer are fair and reasonable so far as the GDC Optionholders are concerned.

### RECOMMENDATIONS

Having considered the above factors, in particular, the following:

- for the GDC Independent Shareholders who are interested in the business prospects of GDC, if they accept the Share Exchange Offer, they will still have an indirect interest in GDC through shareholding in SCG. Their effective interest in GDC will be diluted but they may also be able to share the business prospects, future profits of GDC and SCG and future dividends (if any) of SCG. However, GDC Independent Shareholders should note that they will also be exposed to the risks in both the CG industry and property industry;
- according to the GDC Quarterly Report, GDC had been loss making, and no dividend had been declared and paid by GDC so far;
- GDC may experience cash flow problem if it is not able to realise the investment in the Film (the related production costs of which were capitalised as production work in progress and accounted for approximately 57.3% of the total assets in the unaudited consolidated balance sheet of the GDC Group as at 30 June 2004) in the near future or raise additional funds by the issue of new GDC Shares for equity capital or convertible instruments and/or the introduction of a strategic investor for GDC Technology or a divestment of GDC Technology assuming the right valuation could be achieved etc.;
- there is improvement in the attributable net asset value for the GDC Shareholders based on full acceptance of the Share Exchange Offer if the Offers become unconditional;
- the Share Offer Price and LPD Share Offer Price represent substantial premia over the closing prices of the GDC Shares as quoted on the Stock Exchange;
- the closing prices of GDC Shares had been declining gradually and trading below the Share Offer Price and the LPD Share Offer Price since 9 August 2004 and up to the Latest Practicable Date;

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## LETTER FROM FIRST SHANGHAI

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- compared with the discount of approximately 41.3% of the closing price to the latest published net asset value per Imagi Share as detailed above, the Share Offer Price and LPD Share Offer Price represent substantial premia of approximately 142.9% over the latest unaudited net asset value per GDC Share of HK\$0.07 as at 30 June 2004;
- GDC Shares were thinly traded during the Review Period, while SCG Shares offered relatively more liquidity to the shareholders;
- taking into account of the relatively low trading volume of GDC Shares during the Review Period, it would be difficult for the shareholders to dispose of their shareholding in GDC in the market without adversely affect the prices of the GDC Shares;
- the trading of the SCG Shares was suspended on 16 November 2004 and resumed on 22 November 2004, after which and up to the Latest Practicable Date, the SCG Shares were traded within a range of HK\$0.53 and HK\$0.61, which were generally maintained at a level close to the closing price of HK\$0.56 per SCG Shares as quoted on the Stock Exchange before the issue of the Joint Announcement. The price performance of SCG Shares are relatively stable;
- due to the gradual recovery of the economy, the property market may start to pick up which may bring in additional rental income to SCG; and
- the Option Offer Price is a nominal amount as the GDC Options were deeply “out of money” as at the Latest Practicable Date.

we are of the view that the Offers are fair and reasonable so far as the GDC Independent Shareholders are concerned, and accordingly advise the Independent Board Committee to recommend the GDC Independent Shareholders and the GDC Optionholders to accept the Offers.

GDC Independent Shareholders are reminded that if the Offeror and SCG effect the compulsory acquisition of GDC in the event that the Offeror is permitted to do so under the Companies Act and the Takeovers Code, the GDC Independent Shareholders will be required to dispose of their GDC Shares to the Offeror in accordance with the terms of the Share Exchange Offer. If the Offeror and SCG decide to privatise GDC subsequently, the GDC Shares will be withdrawn from listing on GEM and there will no longer have an open market for trading of the GDC Shares.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**  
**Helen Zee** **Byron Tan**  
*Managing Director* *Managing Director*

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 1. FINANCIAL INFORMATION

A. Summary of published financial results for each of the three years ended 31 December 2003

#### CONSOLIDATED RESULTS

*Year ended 31 December*

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 (note 1)
Turnover	11,478	2,306	2,240
Cost of sales	(8,428)	(3,228)	(3,069)
Gross profit/(loss)	3,050	(922)	(829)
Other revenue	156	22	12
Other operating income	658	–	–
Administrative expenses	(27,648)	(11,644)	(7,657)
Other operating expenses, net	(4,261)	(3,089)	(1,761)
Operating loss	(28,045)	(15,633)	(10,235)
Finance costs	(5,255)	(1,796)	(82)
Loss before taxation	(33,300)	(17,429)	(10,317)
Taxation	151	–	–
Loss for the year	(33,149)	(17,429)	(10,317)
Loss per share (HK\$)	0.0463	0.0264	0.2579
Dividend per share	–	–	–

*Notes:*

1. based on figures disclosed in the prospectus dated 23 July 2003
2. There were no extraordinary items, exceptional items nor minority interests for each of the three years ended 31 December 2003. Also, none of the audited financial statements of GDC were qualified by the auditors of GDC for the three years ended 31 December 2003.

#### CONSOLIDATED ASSETS AND LIABILITIES

*As at 31 December*

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 (Note)
Total assets	146,003	81,929	45,029
Total liabilities	77,561	76,502	17,751
Net assets	68,442	5,427	27,278

*Note:* based on figures disclosed in the prospectus dated 23 July 2003

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### B. Financial information for the two years ended 31 December 2003

Set out below is a summary of the audited consolidated financial statements of the GDC Group extracted from the annual report of the GDC Group for the year ended 31 December 2003.

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

*Year ended 31 December 2003*

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Turnover	3	11,478	2,306
Cost of sales		<u>(8,428)</u>	<u>(3,228)</u>
Gross profit/(loss)		3,050	(922)
Other revenue	3	156	22
Other operating income		658	–
Administrative expenses		(27,648)	(11,644)
Other operating expenses		<u>(4,261)</u>	<u>(3,089)</u>
Operating loss	5	(28,045)	(15,633)
Finance costs	6	<u>(5,255)</u>	<u>(1,796)</u>
Loss before taxation		(33,300)	(17,429)
Taxation	7	<u>151</u>	<u>–</u>
Loss for the year	8	<u><u>(33,149)</u></u>	<u><u>(17,429)</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	11		
Basic		<u><u>4.63</u></u>	<u><u>2.64</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Non-current assets			
Fixed assets	12	35,984	28,160
Deferred tax assets	15	151	–
		<u>36,135</u>	<u>28,160</u>
Current assets			
Inventories, at cost	16	3,564	–
Production work in progress	17	75,666	43,564
Trade receivables	18	2,828	69
Prepayments, deposits and other receivables		5,902	2,047
Amounts due from a related company	20	19	–
Bank balances and cash		21,889	8,089
		<u>109,868</u>	<u>53,769</u>
Current liabilities			
Training fees received in advance		2,255	1,122
Advances from a director	19	416	598
Advances from an officer	19	–	3,300
Advances from a shareholder	19	–	12
Trade payables	18	2,566	–
Other payables and accrued charges		19,001	8,441
Amounts due to a related company	20	–	70
Loans from shareholders	21	–	7,900
Other loans	22	–	8,500
Current portion of long-term liabilities	23	21,497	12,838
		<u>45,735</u>	<u>42,781</u>
Net current assets		<u>64,133</u>	<u>10,988</u>
Total assets less current liabilities		<u>100,268</u>	<u>39,148</u>
Financed by:			
Share capital	25	7,800	400
Reserves	26	60,642	5,027
Shareholders' funds		68,442	5,427
Non-current liabilities			
Loans from a shareholder	21	11,536	11,746
Long-term liabilities	23	20,290	21,975
		<u>100,268</u>	<u>39,148</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### BALANCE SHEET

As at 31 December 2003

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	13	86,408	8,659
Current assets			
Prepayments, deposits and other receivables		541	—
Bank balances and cash		10,839	—
		11,380	—
Current liabilities			
Other payables and accrued charges		581	3,232
Net current assets/(liabilities)		10,799	(3,232)
Total assets less current liabilities		97,207	5,427
Financed by:			
Share capital	25	7,800	400
Reserves	26	89,407	5,027
Shareholders' funds		97,207	5,427

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

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### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2003*

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Equity as at 1 January		5,427	27,278
Exchange differences arising on translation of the accounts of foreign subsidiaries not recognised in the consolidated profit and loss account	26	–	43
Loss for the year	26	(33,149)	(17,429)
Issue of shares to pre-listing investors	25, 26	40,200	–
Issue of shares by placing and public offer	25, 26	66,300	–
Share issuance costs	26	<u>(10,336)</u>	<u>(4,465)</u>
Equity as at 31 December		<u><u>68,442</u></u>	<u><u>5,427</u></u>

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Cash flows from operating activities			
Cash used in operations	27(a)	(50,090)	(30,384)
Interest paid		(4,511)	(120)
Net cash used in operating activities		<u>(54,601)</u>	<u>(30,504)</u>
Cash flows from investing activities			
Purchase of fixed assets		(10,671)	(10,085)
Sale of fixed assets		976	–
Interest received		156	22
Net cash used in investing activities		<u>(9,539)</u>	<u>(10,063)</u>
Cash flows from financing activities	27(b)		
(Decrease)/increase in amounts due to a related company		(70)	23,414
Issue of shares by placing and public offer		66,300	–
Issue of shares to pre-listing investors		40,200	–
Share issuance costs		(10,336)	(1,233)
Increase in loans from shareholders		1,025	1,674
Drawdown of long-term bank loans		14,143	14,143
Redemption of convertible note		(7,800)	–
Repayment of loans from shareholders		(9,135)	–
Drawdown of other loans		2,000	–
Repayment of other loans		(10,500)	–
New finance lease obligations		1,218	13,960
Capital element of finance lease payments		(7,775)	(3,585)
Interest element of finance lease payments		(1,330)	(828)
Net cash from financing activities		<u>77,940</u>	<u>47,545</u>
Effect of foreign exchange rate changes		<u>–</u>	<u>43</u>
Net increase in cash and cash equivalents		13,800	7,021
Cash and cash equivalents at 1 January		<u>8,089</u>	<u>1,068</u>
Cash and cash equivalents at 31 December		<u><u>21,889</u></u>	<u><u>8,089</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash		<u><u>21,889</u></u>	<u><u>8,089</u></u>

**NOTES TO THE ACCOUNTS****1.      GROUP REORGANISATION**

The Company was incorporated in Bermuda on 9 October 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the “Reorganisation”), which was completed on 31 December 2002, to rationalise the structure of the Group in preparation for the listing of the shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the subsidiaries, details of which are set out in note 13 to the accounts. The shares of the Company were listed on GEM on 4 August 2003.

**2.      PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these accounts are set out below:

**(a)      Basis of preparation of the accounts**

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

**(b)      Group accounting***(i)      Basis of consolidation*

The Group resulting from the Reorganisation referred to in note 1 above, is regarded as a continuing entity. Accordingly, the consolidated accounts has been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group following the Reorganisation throughout the two years ended 31 December 2003 and 2002, or from their respective dates of incorporation to 31 December 2003, where this is a shorter period. In the opinion of the Directors, the consolidated accounts prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December on the basis set out above.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

In the Company’s balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses. The results of a subsidiary are accounted for by the Company on the basis of dividends received and receivable.

*(ii)      Jointly controlled operation*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The assets that the Group controls and liabilities that it incurs in relation to a jointly controlled operation joint venture are recognised in the balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from services rendered by this joint venture are included in the profit and loss account.

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(c) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and a jointly controlled operation joint venture expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at average exchange rates. Exchange differences are dealt with as a movement in reserves.

**(d) Research and development costs**

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised.

Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Where an indication of impairment exists, the carrying amount of any development costs previously recognised as assets is assessed and written down immediately to its recoverable amount.

**(e) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and impairment losses. No depreciation is provided in respect of construction in progress until completion. Depreciation of other fixed assets is provided at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on straight-line basis. The estimated lives of fixed assets are summarised as follows:

Leasehold improvements	over lease term
Furniture, fixtures and equipment	5 years
Computer equipment	3 years
Digital film encoders and servers	10 years
Motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is determined as the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the fixed asset is estimated and where relevant an impairment loss is recognised to reduce the fixed asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

**2.      PRINCIPAL ACCOUNTING POLICIES (Continued)****(f)      Assets under leases****(i)      *Finance leases***

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance lease is capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the period of lease.

The fixed assets acquired under finance leases are included in the balance sheet according to their nature, and where applicable, are depreciated in accordance with the Group's depreciation policies as set out in note (2)(e) above.

**(ii)      *Operating leases***

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of lease.

Assets leased out under operating leases are included in fixed assets in the consolidated balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) is recognised in accordance with the Group's revenue recognition policies as set out in note (2)(o)(iv) below.

**(g)      Film costs and films under production**

Films under production is stated at cost less provision for impairment losses. Cost comprises direct production costs, consultancy fees, payment for intellectual property rights and appropriate proportion of production overheads which are allocated on the basis of floor areas occupied by the production unit, proportion of time of production facilities utilised or other systematic allocation methods where the Directors consider appropriate.

Production costs are transferred to film costs upon completion. Film costs are stated at cost less accumulated amortisation and impairment losses. Film costs less accumulated impairment losses are amortised based on the ratio of the actual gross revenues of the current year to the estimated remaining total gross revenues from all sources on an individual production basis.

**(h)      Inventories**

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

**(i)      Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(j)      Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

**(k)      Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(l) Employee benefits****(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) Pension obligations**

The Group maintains various retirement schemes which are available to qualified employees. Monthly contributions made by the Group are calculated based on certain percentages of the applicable payroll costs. Contributions are charged to the profit and loss account as incurred.

**(m) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and a jointly controlled operation joint venture, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**(n) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(o) Revenue recognition**

The Group recognises revenues on the following bases:

- (i) Training fee income is recognised over the period of the course. Unearned training fee income received is recorded as training fees received in advance.
- (ii) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (iii) Box office receipts are recognised when the digital motion pictures are exhibited.
- (iv) Rental income from equipment leasing is recognised on a straight-line basis.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Franchise fees from digital cinemas for use of equipment are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(vi) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

#### (p) Borrowing costs

Borrowing costs that are directly attributable to the production of films that necessary takes a substantial period of time to get ready for sale are capitalised as part of the production work in progress.

Guarantee fees paid in respect of the Group's long-term bank loans are amortised on a straight-line basis over the term of bank loans.

All other borrowing costs, which included premium on redemption of convertible note, are charged to the profit and loss account in the period in which they are incurred.

#### (q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, production work in progress and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions of fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Segment assets and capital expenditure are analysed based on location of assets.

Inter-segment revenues and results are eliminated on consolidation.

### 3. REVENUES AND TURNOVER

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Training fees	2,577	2,052
Sales of goods	8,599	—
Box office receipts from distribution of digital motion pictures	93	151
Rental income from equipment leasing	137	55
Franchise fee from digital cinema for use of equipment	72	48
	<u>11,478</u>	<u>2,306</u>
Other revenue		
Interest income	156	22
	<u>156</u>	<u>22</u>
Total revenues	<u>11,634</u>	<u>2,328</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 4. SEGMENT INFORMATION

#### Primary reporting format – business segments

The Group is organised into three main business segments including CG creation and production, digital content distribution and exhibitions, and the provision of CG training courses.

	Year ended 31 December 2003					
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External	–	8,901	2,577	–	–	11,478
Inter-segment	–	2,025	–	–	(2,025)	–
	<u>–</u>	<u>10,926</u>	<u>2,577</u>	<u>–</u>	<u>(2,025)</u>	<u>11,478</u>
Total turnover	<u>–</u>	<u>10,926</u>	<u>2,577</u>	<u>–</u>	<u>(2,025)</u>	<u>11,478</u>
Segment results	<u>(6,408)</u>	<u>(8,824)</u>	<u>(4,078)</u>			(19,310)
Other revenue						156
Unallocated costs						<u>(8,891)</u>
Operating loss						(28,045)
Finance costs						<u>(5,255)</u>
Loss before taxation						(33,300)
Taxation						<u>151</u>
Loss for the year						<u>(33,149)</u>
Segment assets	101,569	13,125	6,021			120,715
Unallocated assets						<u>25,288</u>
Total assets						<u>146,003</u>
Segment liabilities	5,741	4,377	4,673			14,791
Unallocated liabilities						<u>62,770</u>
Total liabilities						<u>77,561</u>
Capital expenditure	12,130	3,427	1,409	893	–	17,859
Depreciation	5,706	1,829	1,804	378	–	9,717
Amortisation of loan guarantee fee	<u>186</u>	<u>–</u>	<u>–</u>	<u>557</u>	<u>–</u>	<u>743</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 4. SEGMENT INFORMATION (Continued)

#### Primary reporting format – business segments (Continued)

	Year ended 31 December 2002					
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover						
External	–	254	2,052	–	–	2,306
Inter-segment	–	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total turnover	<u>–</u>	<u>254</u>	<u>2,052</u>	<u>–</u>	<u>–</u>	<u>2,306</u>
Segment results	<u>(3,515)</u>	<u>(8,285)</u>	<u>(1,189)</u>			(12,989)
Other revenue						22
Unallocated costs						<u>(2,666)</u>
Operating loss						(15,633)
Finance costs						<u>(1,796)</u>
Loss for the year						<u>(17,429)</u>
Segment assets	62,859	4,645	5,658			73,162
Unallocated assets						<u>8,767</u>
Total assets						<u>81,929</u>
Segment liabilities	2,088	501	1,551			4,140
Unallocated liabilities						<u>72,362</u>
Total liabilities						<u>76,502</u>
Capital expenditure	5,437	4,338	176	134	–	10,085
Depreciation	4,242	893	1,524	126	–	6,785
Amortisation of loan guarantee fee	<u>71</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>71</u>

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## 4. SEGMENT INFORMATION (Continued)

### Secondary reporting format – geographical segments

The Group's three business segments operate in four main geographical areas, namely Hong Kong, China mainland, India and other regions (principally United States of America (the "US"), Thailand and Taiwan). The head office of the Group and the research and development centre are located in Hong Kong. The Group's CG production centre and the CG training facilities are located in China mainland. Customers of the Group's digital content distribution and exhibitions business are located in China mainland, India and other regions.

	Year ended 31 December 2003			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	(2,586)	48,129	4,083
China mainland	2,814	(7,979)	67,321	13,691
India	7,100	(7,492)	1,485	–
Other regions (principally the US, Thailand and Taiwan)	1,564	(1,253)	3,780	85
	<u>11,478</u>			<u>17,859</u>
Other revenue		156		
Unallocated costs		<u>(8,891)</u>		
Operating loss		<u>(28,045)</u>		
Unallocated assets			25,288	
Total assets			<u>146,003</u>	

	Year ended 31 December 2002			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	(8,292)	27,254	2,049
China mainland	2,306	(4,697)	45,908	8,036
India	–	–	–	–
Other regions (principally the US, Thailand and Taiwan)	–	–	–	–
	<u>2,306</u>			<u>10,085</u>
Other revenue		22		
Unallocated costs		<u>(2,666)</u>		
Operating loss		<u>(15,633)</u>		
Unallocated assets			8,767	
Total assets			<u>81,929</u>	

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## 5. OPERATING LOSS

**2003**  
*HK\$'000*                      **2002**  
*HK\$'000*

Operating loss is stated after crediting and charging the following:

### Crediting

Gain on disposal of fixed assets	658	–
----------------------------------	-----	---

### Charging

Auditors' remuneration	1,035	122
Cost of inventories sold	3,648	–
Depreciation ( <i>note a</i> )	4,013	2,701
Exchange loss, net	73	68
Loss on disposal of fixed assets	–	1
Operating lease rental expense for land and buildings ( <i>note b</i> )	3,550	1,075
Research and development costs ( <i>note c</i> )	2,845	2,232
Staff costs ( <i>note c</i> )	10,781	5,361

Notes:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
(a) Depreciation		
– leased assets	6,820	4,031
– owned assets	2,897	2,754
	9,717	6,785
Less: Amounts included in production work in progress	(5,704)	(4,084)
	4,013	2,701
(b) Operating lease rentals on land and buildings	4,708	2,310
Less: Amounts included in production work in progress	(1,158)	(1,235)
	3,550	1,075
(c) Staff costs (including Directors' emoluments)		
– wages and salaries	28,496	21,356
– other allowances and benefits	1,824	1,992
– retirement benefit costs ( <i>note 24</i> )	1,101	780
	31,421	24,128
Less: Amounts included in production work in progress	(17,795)	(16,535)
Amounts included in research and development costs	(2,845)	(2,232)
	10,781	5,361

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 6. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expenses on		
– finance leases	1,330	828
– bank loans (wholly repayable within five years)	1,519	121
– bank overdrafts	34	–
– other loans (wholly repayable within five years)	420	84
– loans from shareholders	1,586	370
– advances from an officer (note 19)	50	–
– convertible note	134	10
Premium on redemption of convertible note	–	312
Amortisation of loan guarantee fee	743	71
	<u>5,816</u>	<u>1,796</u>
Total finance costs incurred	5,816	1,796
Less: Amounts capitalised in production work in progress		
– interest expenses	(375)	–
– other borrowing costs	(186)	–
	<u>(561)</u>	<u>–</u>
Total borrowing costs capitalised	(561)	–
Finance costs charged to consolidated profit and loss account	<u>5,255</u>	<u>1,796</u>

The capitalisation rate applied to funds borrowed generally and used for the production of films is 0.5% per month (2002: Nil).

### 7. TAXATION

No Hong Kong profits tax was provided for the year as the Group had no estimated assessable profit arising in or deriving from Hong Kong (2002: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

The amount of taxation credited to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current taxation	–	–
Deferred taxation relating to the origination and reversal of temporary differences (note 15)	<u>151</u>	<u>–</u>
Taxation credit	<u>151</u>	<u>–</u>

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## 7. TAXATION (Continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average taxation rate of the Group as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(33,300)	(17,429)
Tax calculated at weighted average tax rate of 17.71% (2002: 18.02%)	(5,897)	(3,140)
Income not subject to taxation	(24)	(41)
Expenses not deductible for taxation purpose	2,554	2,108
Deferred tax benefits arising from tax losses in subsidiaries not recognised	1,458	70
Expenses/(income) of subsidiaries in China mainland under tax holiday	358	(294)
Temporary difference arising from unrealised profit resulting from intra-group transactions for which no deferred taxation is recognised	1,400	1,297
Taxation credit	(151)	–

## 8. LOSS FOR THE YEAR

The loss for the year is dealt with in the accounts of the Company to the extent of HK\$4,384,000 (2002: HK\$Nil).

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Details of emoluments paid and payable to the Directors during the year are as follows:

	Year ended 31 December 2003				
	Fees	Salaries	Allowances and benefits in kind (note e)	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive Directors:</i>					
Mr. Raymond Dennis Neoh	–	1,200	336	12	1,548
Mr. Richard Yingneng Yin (note a)	150	600	–	3	753
	150	1,800	336	15	2,301
<i>Non-executive Directors:</i>					
Mr. Anthony Francis Neoh	–	–	–	–	–
Dr. David Deng Wei (note b)	225	–	–	–	225
	225	–	–	–	225
<i>Independent non-executive Directors:</i>					
Mr. Gordon Kwong Che Keung (note b)	285	–	–	–	285
Professor Japhet Sebastian Law (note b)	285	–	–	–	285
Mr. Stephen Scharf (note b)	225	–	–	–	225
Dato Ibrahim Zain (note c)	–	–	–	–	–
	795	–	–	–	795
	1,170	1,800	336	15	3,321

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

	Year ended 31 December 2002				Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Allowances and benefits in kind (note e) HK\$'000	Retirement scheme contributions HK\$'000	
<i>Executive Directors:</i>					
Mr. Raymond Dennis Neoh	–	1,200	336	12	1,548
Dr. Chong Man Nang (note d)	–	1,560	299	12	1,871
	<u>–</u>	<u>2,760</u>	<u>635</u>	<u>24</u>	<u>3,419</u>
<i>Non-executive Director:</i>					
Mr. Anthony Francis Neoh	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>2,760</u>	<u>635</u>	<u>24</u>	<u>3,419</u>

### Notes:

- (a) Appointed as non-executive Director on 15 April 2003 and redesignated as executive Director on 8 October 2003.
- (b) Appointed on 15 April 2003.
- (c) Appointed on 15 April 2003, resigned on 26 June 2003 and reappointed on 18 January 2004.
- (d) Resigned on 31 December 2002.
- (e) The quarters provided to executive Directors are included as part of their emoluments.

The emoluments of the Directors fall into the following bands:

	Number of Directors	
	2003	2002
Emolument bands:		
Nil to HK\$1,000,000	7	1
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>2</u>

- (ii) The five individuals whose emoluments were the highest in the Group during the year include two (2002: two) Directors whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	2003 HK\$'000	2002 HK\$'000
Directors	2,301	3,419
Employees	<u>5,319</u>	<u>2,346</u>
	<u>7,620</u>	<u>5,765</u>

- (iii) Details of the emoluments paid by the Group to the remaining highest paid employees as mentioned in note (ii) above are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries	4,611	2,346
Bonus	390	–
Allowances and benefits in kind	294	–
Retirement scheme contributions	<u>24</u>	<u>–</u>
	<u>5,319</u>	<u>2,346</u>

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

The emoluments of the remaining highest paid employees fall into the following bands:

	Number of Individuals	
	2003	2002
Emolument bands:		
Nil to HK\$1,000,000	–	3
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	–

- (iv) During the year, no emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2002: Nil). No Directors waived or agreed to waive any emoluments during the year (2002: Nil).

## 10. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

## 11. LOSS PER SHARE

Basic loss per share for the year ended 31 December 2003 is calculated based on the loss for the year of HK\$33,149,000 and on the weighted average of 715,903,027 shares in issue during the year.

The comparative basic loss per share for the year ended 31 December 2002 is calculated based on the loss for the year of HK\$17,429,000 and on an aggregate of 660,100,011 shares, comprising 10,000,000 shares issued on 7 November 2002, 30,000,000 shares issued upon the Reorganisation and 620,100,011 shares issued pursuant to the capitalisation issue for the then shareholders upon completion of the Reorganisation, which were deemed to have been in issue since 1 January 2002.

Diluted loss per share for the year ended 31 December 2003 is not presented because there was no dilutive potential ordinary shares in existence during the year. No diluted loss per share was presented for the year ended 31 December 2002 as the convertible note was anti-dilutive.

## 12. FIXED ASSETS

Group

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Digital film encoders and servers HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2003	16,170	793	19,473	1,914	321	–	38,671
Additions	739	274	11,461	–	701	4,684	17,859
Disposals	–	–	(400)	–	–	–	(400)
At 31 December 2003	16,909	1,067	30,534	1,914	1,022	4,684	56,130
Accumulated depreciation							
At 1 January 2003	2,627	229	7,421	127	107	–	10,511
Charge for the year	1,588	167	7,677	192	93	–	9,717
Disposals	–	–	(82)	–	–	–	(82)
At 31 December 2003	4,215	396	15,016	319	200	–	20,146
Net book value							
At 31 December 2003	12,694	671	15,518	1,595	822	4,684	35,984
At 31 December 2002	13,543	564	12,052	1,787	214	–	28,160
Net book value of leased assets							
At 31 December 2003	–	–	10,239	–	150	–	10,389
At 31 December 2002	–	–	11,416	–	214	–	11,630

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 12. FIXED ASSETS (Continued)

The aggregate cost and accumulated depreciation of fixed assets held for use in operating leases as at 31 December 2003 are analysed as follows:

#### Group

	Computer equipment		Digital film encoders and servers	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cost	490	–	957	957
Accumulated depreciation	(134)	–	(160)	(64)
Net book value	<u>356</u>	<u>–</u>	<u>797</u>	<u>893</u>
Depreciation charge of fixed assets held for use in operating leases for the year	<u>112</u>	<u>–</u>	<u>96</u>	<u>64</u>

### 13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	9,892	9,892
Amounts due from subsidiaries	76,516	–
Amount due to a subsidiary	–	(1,233)
	<u>86,408</u>	<u>8,659</u>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of subsidiaries at 31 December 2003:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ paid up capital	Interest held	
				2003	2002
#GDC (BVI) Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	521,418,075 ordinary shares of US\$0.01 each	100%	100%
GDC Holdings Limited	BVI	Investment holding in Hong Kong	521,418,075 ordinary shares of US\$0.01 each	100%	100%
GDC Asset Management Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	–
GDC Capital Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%	–
GDC China Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%	100%
GDC Entertainment Limited	BVI	Animation investment, licensing and merchandising distribution in a worldwide basis	3,510 ordinary shares of US\$1 each	100%	100%

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ paid up capital	Interest held	
				2003	2002
GDC Technology Limited	BVI	Provision of computing solutions for digital content distribution and exhibitions in a worldwide basis	1 ordinary share of US\$1	100%	100%
GDC Technology Pte. Ltd	Singapore	Provision of administrative services to group companies in Singapore	2 ordinary shares of S\$1 each	100%	100%
環球數碼媒體科技(上海)有限公司 ("IDMT Shanghai")	People's Republic of China ("PRC")	Provision of computer graphics and animation training in China mainland	US\$140,000	100%	–
環球數碼媒體科技研究(深圳)有限公司 ("IDMT Shenzhen")	PRC	Provision of computer graphics and animation training, development of multimedia software and hardware, and provision of related technical consultancy services in China mainland	US\$2,000,000	100%	100%

# Shares held directly by the Company

### 14. JOINTLY CONTROLLED OPERATION

The Group has entered into a jointly controlled operation to undertake a digital content distribution and exhibition contract. At 31 December 2003, the aggregate amounts of assets, turnover and results recognised in the accounts in relation to the Group's interest in the jointly controlled operation are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
<b>Results</b>		
Turnover, net of business tax		
Box office receipts from distribution of digital motion pictures	74	116
Franchise fee from digital cinema for use of equipment	72	48
	<u>146</u>	<u>164</u>
Cost of sales – depreciation	(96)	(64)
	<u>50</u>	<u>100</u>
Group's share of profit for the year	<u>50</u>	<u>100</u>
<b>Net assets</b>		
Assets		
Fixed assets – digital film encoder and server	798	894
Trade receivables	50	50
	<u>848</u>	<u>944</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 15. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using rates of taxation prevailing in the countries in which the Group operates.

The movement on the deferred tax assets account is as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	–	–
Deferred taxation credited to consolidated profit and loss account ( <i>note 7</i> )	151	–
At 31 December	151	–

Deferred income tax assets are recognised for tax loss carry forward and other deductible temporary difference to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2003, the Group has unrecognised tax losses of HK\$7,634,000 (2002: HK\$314,000) to carry forward against future taxable income; these tax losses have no expiry date. In addition, the Group has unrecognised temporary difference arising from unrealised profit resulting from intra-group transactions of HK\$19,794,000 (2002: HK\$11,794,000). The Group did not recognise the deferred tax assets for such deductible temporary difference as the utilisation of the temporary difference is uncertain.

The movement in deferred tax assets of the Group during the year is as follows:

	<b>Accelerated tax depreciation</b>		<b>Others</b>		<b>Total</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	–	–	–	–	–	–
Credited to consolidated profit and loss account	118	–	33	–	151	–
At 31 December	118	–	33	–	151	–

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>

The amount shown in the balance sheet includes the following:

Deferred tax assets to be recovered after more than 12 months	101	–
---	-----	---

No deferred taxation was provided in the accounts of the Company as at 31 December 2003 (2002: Nil).

### 16. INVENTORIES, AT COST

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	938	–
Finished goods	2,626	–
	3,564	–

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 17. PRODUCTION WORK IN PROGRESS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Production costs incurred, at cost	<u>75,666</u>	<u>43,564</u>

Production work in progress mainly represents production costs incurred for the film titled *Thru the Moebius Strip* (the "Film"), a movie project currently under production by the Group. Having regard to the latest production status of the Film and projected sales estimated by the Group's sales agents, the Directors are of the opinion that the production costs incurred as at 31 December 2003 are fully recoverable.

Interest in the Film was pledged as security to secure payments to a third party for services rendered in connection with the production of the Film.

### 18. TRADE RECEIVABLES AND TRADE PAYABLES

Aging analysis of trade receivables is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within three months	2,699	38
Three to six months	13	19
Over six months	<u>116</u>	<u>12</u>
	<u>2,828</u>	<u>69</u>

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

Aging analysis of trade payables is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within three months	2,170	—
Three to six months	<u>396</u>	<u>—</u>
	<u>2,566</u>	<u>—</u>

### 19. ADVANCES FROM A DIRECTOR/AN OFFICER/A SHAREHOLDER

Advances from Mr. Raymond Dennis Neoh, a Director of the Company, are unsecured, interest-free and have no fixed terms of repayment.

Advances from Ms. Amelia Mak Lai Yu, company secretary of the Company, were unsecured and interest-free. At the discretion of the Directors, the Group paid interest to Ms. Amelia Mak Lai Yu at a rate of prime plus 3% (note 6). The advances were fully settled during the year.

Advances from Mr. Richard Yingneng Yin, a shareholder of the Company who was appointed as the Director of the Company during the year, were unsecured and interest-free. The advances were fully settled during the year.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 20. AMOUNTS DUE FROM/TO A RELATED COMPANY

Amounts due from/to a related company represent amounts due from/to Global Digital Creations Limited, a former holding company of the subsidiaries comprising the Group prior to the Reorganisation. Mr. Raymond Dennis Neoh, Mr. Anthony Francis Neoh, Mr. Richard Yingneng Yin and Dr. David Deng Wei, who are Directors of the Company, are the directors and/or shareholders of Global Digital Creations Limited.

On 27 and 28 November 2002, amounts due to Global Digital Creations Limited of HK\$74,916,000 were applied to offset against the novation of convertible note (note 23(b)) and loans from shareholders (note 21) and other loans (note 22) to GDC Holdings Limited and the remaining balance of HK\$40,644,000 as at 28 November 2002 was capitalised as share capital of GDC Holdings Limited pursuant to the Reorganisation (note 26(a)) which was deemed to be effected prior to 1 January 2002 for the purpose of the preparation of these accounts.

The amounts receivable and payable are unsecured, interest-free and have no specific terms of repayment. The maximum receivable amount outstanding during the year was HK\$19,000 (2002: HK\$Nil).

### 21. LOANS FROM SHAREHOLDERS/A SHAREHOLDER

On 27 and 28 November 2002, the shareholders' loans of HK\$17,972,000 were novated to the Group by Global Digital Creations Limited pursuant to deeds of novation. As at 31 December 2003, loans from shareholders are as follows:

		<b>Group</b>	
	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Repayable within one year:			
Sotas Limited	(a)	—	7,600
Mr. Richard Yingneng Yin	(b)	—	300
		<u>          </u>	<u>          </u>
		—	7,900
Repayable later than one year:			
Mr. Anthony Francis Neoh	(c)	11,536	11,746
		<u>          </u>	<u>          </u>
		<u>11,536</u>	<u>19,646</u>

#### Notes:

- (a) The loans from Sotas Limited were unsecured. The loan of HK\$1,600,000 bore interest at best lending rate as quoted by the Standard Chartered Bank from time to time plus 3% per annum and was repayable in full on 31 July 2001. The remaining loan of HK\$6,000,000 bore interest at a fixed rate of 10% per annum with an additional interest of 5% per annum on any overdue principal and interest and was repayable in full on 2 April 2002. The Group was obliged to grant a share option to Sotas Limited for the purchase of new shares of the Company should the Group failed to repay the loan and/or accrued interest to Sotas Limited by 29 June 2002. Pursuant to the relevant loan agreement and deed of novation entered into with Sotas Limited, the Group granted a share option to Sotas Limited on 5 June 2003 for the purchase of 504,870 shares of the Company at HK\$0.01 each, representing approximately 8,331,615 shares of the Company upon the listing of the Company's shares on the GEM, at an aggregate exercise price of US\$600,000 and with the option period of 36 months commencing from the date of the listing of the Company's shares on GEM ("Sotas Option"). The loans were fully settled during the year ended 31 December 2003. No share option under the Sotas Option was exercised during the year ended 31 December 2003.
- (b) The loan from Mr. Richard Yingneng Yin was unsecured, bore interest at best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum and was repayable in full by 30 July 2002. The loan was fully settled during the year ended 31 December 2003.
- (c) The loan from Mr. Anthony Francis Neoh is unsecured, bears interest at best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum and is not repayable within twelve months from 31 December 2003.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 22. OTHER LOANS

On 27 and 28 November 2002, other loans of HK\$8,500,000 were novated to the Group by Global Digital Creations Limited pursuant to deeds of novation. As at 31 December 2003, other loans are as follows:

		Group	
	Note	2003 HK\$'000	2002 HK\$'000
Kingsway SW Finance Limited	(a)	—	1,700
Mr. William Ka Chung Lam	(b)	—	1,000
E-Talent Investments Limited	(c)	—	5,800
		<u>—</u>	<u>8,500</u>

Notes:

- (a) The loan from Kingsway SW Finance Limited, a fellow subsidiary of Cyber Prime Developments Limited, a shareholder of the Company, was unsecured, bore interest at best lending rate as quoted by the Standard Chartered Bank from time to time plus 3% per annum and was repayable in full on 14 May 2003. The loan was fully settled during the year ended 31 December 2003.
- (b) The loan from Mr. William Ka Chung Lam, a beneficial owner of Perfect Brilliant Limited, a shareholder of the Company, was unsecured, bore interest at best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum and was repayable in full on 30 July 2002. The loan was fully settled during the year ended 31 December 2003.
- (c) Pursuant to an agreement between E-Talent Investments Limited ("E-Talent"), an independent third party, and Kingsway SW Finance Limited, Kingsway SW Finance Limited agreed to make available to E-Talent a credit facility of HK\$5,800,000 (the "Kingsway Finance Facility"), which was used by E-Talent for on-lending to Global Digital Creations Limited. Each of Mr. Anthony Francis Neoh and Mr. Raymond Dennis Neoh and the ultimate beneficial owner of E-Talent has given an irrevocable and unconditional personal guarantee in favour of Kingsway SW Finance Limited for the repayment of the Kingsway Finance Facility. The guarantee shall continue to be effective until seven months after final payment has been made.

The loan bore interest at best lending rate as quoted by the Standard Chartered Bank from time to time plus 3% per annum and was repayable in full on 17 June 2003. The loan was fully settled during the year ended 31 December 2003.

### 23. LONG TERM LIABILITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans, secured (note a)	28,286	14,143
Convertible note (note b)	—	7,800
Obligations under finance leases (note c)	13,501	12,870
	<u>41,787</u>	<u>34,813</u>
Current portion of long-term liabilities	(21,497)	(12,838)
	<u>20,290</u>	<u>21,975</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 23. LONG TERM LIABILITIES (Continued)

Notes:

- (a) As at 31 December 2003, the bank loans were repayable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	14,143	–
In the second year	14,143	14,143
	<u>28,286</u>	<u>14,143</u>

On 31 October 2002, banking facilities of RMB30,000,000 (equivalent to approximately HK\$28,286,000) have been obtained by IDMT Shenzhen from Bank of China, Shenzhen branch (“BOC Facilities”). The Group had drawdown RMB15,000,000 on 31 October 2002. The BOC Facilities will be expired on 31 October 2004. The BOC Facilities are guaranteed by Global Digital Creations Limited and 中投信用擔保有限公司 (“CICG”), an independent third party (the “CICG Guarantee”). Global Digital Creations Limited and Mr. Raymond Dennis Neoh have given counter-guarantees in favour of CICG and GDC China Limited, a subsidiary of the Company, has pledged its entire interest in the registered capital of IDMT Shenzhen to CICG (“BOC Asset Pledge”) for the repayment of all debts incurred by CICG for which CICG is liable under the CICG Guarantee. The guarantee given by Global Digital Creations Limited will be effective till two years upon the expiry of the term of the bank loan. The counter-guarantee given by Mr. Raymond Dennis Neoh remains effective as at 31 December 2003. The counter-guarantee given by Global Digital Creations Limited and the BOC Asset Pledge will remain effective until IDMT Shenzhen has repaid all debts under the BOC Facilities.

On 21 March 2003, another banking facilities of RMB30,000,000 (equivalent to approximately HK\$28,286,000) have been obtained by IDMT Shenzhen from Shenzhen Commercial Bank in Shenzhen (“SCB Facilities”) and the Group has drawdown an amount of RMB15,000,000 on the same date. The SCB Facilities are guaranteed by CICG (the “SCB Guarantee”) and will be expired on 21 March 2005. The guarantee given by CICG shall be effective for three years after the expiry of the SCB Facilities. The Company and Mr. Raymond Dennis Neoh have given counter-guarantees to CICG and GDC China Limited has pledged its entire interest in the registered capital of IDMT Shenzhen (“SCB Asset Pledge”) to CICG for the repayment of all the debts incurred by CICG for which CICG is liable under the SCB Guarantee. The counter-guarantees given by Mr. Raymond Dennis Neoh and the Company and the SCB Asset Pledge provided by GDC China Limited remain effective until IDMT Shenzhen has repaid all the debts under the SCB Facilities.

- (b) On 27 November 2002, GDC Holdings Limited, a subsidiary of the Company, entered into a deed of novation with Global Digital Creations Limited and Middle Asia Limited (“Middle Asia”) pursuant to which GDC Holdings Limited agreed to take over all the rights, title, interests, benefits, obligations and liabilities of Global Digital Creations Limited under the convertible note (“Convertible Note”) subscription agreement (“Subscription Agreement”) entered into between Global Digital Creations Limited and Middle Asia. Pursuant to the deed of novation, the Convertible Note of HK\$7,800,000 was novated to GDC Holdings Limited.

The Convertible Note was unsecured, bore interest at 1.5% per annum and was convertible into fully-paid ordinary shares of GDC Holdings Limited (or of the Company) at HK\$31.2 per share (subject to adjustments as stipulated in the Subscription Agreement). In the case that the Company’s shares are listed on the GEM, the conversion of the Convertible Note is compulsory. On 28 March 2003, the Group redeemed the Convertible Note at 104% of the outstanding principal with accrued interest pursuant to the Subscription Agreement.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 23. LONG TERM LIABILITIES (Continued)

(c) At 31 December 2003, the Group's finance lease liabilities were payable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	7,354	5,038
In the second year	5,116	5,416
In the third to fifth year	1,031	2,416
	<u>13,501</u>	<u>12,870</u>
Current portion of obligations under finance leases	(7,354)	(5,038)
	<u>6,147</u>	<u>7,832</u>

The reconciliation between the total minimum lease payments and the present value of finance lease obligations is as follows:

	2003 HK\$'000	2002 HK\$'000
Total minimum lease payments repayable:		
Within one year	8,217	6,033
In the second year	5,380	5,891
In the third to fifth year	1,057	2,492
	<u>14,654</u>	<u>14,416</u>
Less: Future finance charges on finance leases	(1,153)	(1,546)
Present value of finance lease obligations	<u>13,501</u>	<u>12,870</u>

### 24. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in China mainland participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, China mainland and Singapore (collectively the "Retirement Schemes"). Contributions totalling HK\$89,000 (2002: HK\$73,000) payable to the Retirement Schemes at 31 December 2003 are included in other payables and accrued charges. There was no forfeited contribution throughout the year (2002: Nil).

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## 25. SHARE CAPITAL

	Note	Ordinary Shares of HK\$0.01 each Number of shares	HK\$'000
Authorised:			
On incorporation at 9 October 2002	(a)	10,000,000	100
Increase in authorised ordinary share capital	(c)	1,190,000,000	11,900
At 31 December 2003		<u>1,200,000,000</u>	<u>12,000</u>
Issued and fully paid:			
Shares allotted on 7 November 2002	(b)	10,000,000	100
Shares allotted on 31 December 2002 for acquisition of subsidiaries pursuant to the Reorganisation	(d)	30,000,000	300
At 31 December 2002		40,000,000	400
Issue of shares to pre-listing investors	(e)	3,247,992	32
Issue of shares by placing and public offer	(f)	66,300,000	663
Capitalisation issue	(f)	670,452,008	6,705
At 31 December 2003		<u>780,000,000</u>	<u>7,800</u>

### Notes:

- (a) The Company was incorporated in Bermuda on 9 October 2002, with an authorised capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each.
- (b) On 7 November 2002, 10,000,000 shares were issued and allotted to Upflow Holdings Limited as nil paid (note (d) below).
- (c) By a written resolution passed by the shareholders of the Company on 31 December 2002, the authorised ordinary share capital of the Company was increased from HK\$100,000 to HK\$12,000,000 by the creation of 1,190,000,000 shares of HK\$0.01 each.
- (d) On 31 December 2002, the shareholders of GDC (BVI) Limited (now the shareholders of the Company) transferred the entire share capital of GDC (BVI) Limited, an intermediate holding company of the companies comprising the Group, to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 30,000,000 new shares of HK\$0.01 each; and (ii) credited as fully paid at par the 10,000,000 nil paid shares of HK\$0.01 each held by Upflow Holdings Limited.
- (e) On 25 and 26 June 2003, the Company allotted and issued 945,311 and 2,302,681 shares of the Company of HK\$0.01 each to two pre-listing investors at cash considerations of HK\$11,700,000 and HK\$28,500,000 respectively. The excess of the aggregated cash consideration over the nominal value of shares of HK\$40,168,000 was credited to the share premium account of the Company (note 26).
- (f) On 1 August 2003, the Company allotted and issued 66,300,000 shares of the Company of HK\$0.01 each to investors through the placing and public offer at HK\$1.00 per share, for cash consideration of HK\$66,300,000. The excess of the aggregate cash consideration over the nominal value of shares of HK\$65,637,000 was credited to the share premium account of the Company (note 26).

On the same date, 670,452,008 shares were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company in proportion to their respective shareholdings at the close of business on 1 August 2003 by way of capitalisation of the sum of approximately HK\$6,705,000 standing to the credit of the share premium account of the Company (note 26).

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 25. SHARE CAPITAL (Continued)

- (g) At a Special General Meeting of the Company held on 18 July 2003, a share option scheme (the “Scheme”) was approved and adopted.

Under the terms of the Scheme, the Board may, at its discretion, offer any full-time employees, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group or other relevant business partners of the Group (collectively the “Participant”), options to subscribe for the Company’s share at the subscription price of the higher of (i) the closing price of the Company’s shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the Company’s shares as stated in the daily quotation sheets by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share on the date of grant. A nominal consideration at HK\$1 each shall be paid by the grantees for the acceptance of the grant of share options.

The maximum number of the Company’s shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the Company’s shares in issue from time to time (the “Scheme Limit”). Taking into account the Company’s share in issue immediately after the completion of the new issue and the capitalisation issue but before the exercise of the Sotas Option, the Scheme Limit is 78,000,000 shares, representing approximately 10% of the total issued share capital of the Company on adoption of the Scheme.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Board to each grantee and in any event such period of time shall not more than ten years commencing on the date on which it was adopted.

No share option was granted under the Scheme during the year.

### 26. RESERVES

#### Group

	Contributed surplus (note a) HK\$'000	Share premium HK\$'000	Share issuance costs (note b) HK\$'000	Statutory reserve (note c) HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	40,271	–	–	–	5	(13,398)	26,878
Share issuance costs	–	–	(4,465)	–	–	–	(4,465)
Loss for the year	–	–	–	–	–	(17,429)	(17,429)
Transfer to statutory reserve	–	–	–	415	–	(415)	–
Exchange difference	–	–	–	–	43	–	43
At 31 December 2002	<u>40,271</u>	<u>–</u>	<u>(4,465)</u>	<u>415</u>	<u>48</u>	<u>(31,242)</u>	<u>5,027</u>
At 1 January 2003	40,271	–	(4,465)	415	48	(31,242)	5,027
Issue of shares to pre-listing investors (note 25(e))	–	40,168	–	–	–	–	40,168
Issue of shares by placing and public offer (note 25(f))	–	65,637	–	–	–	–	65,637
Capitalisation issue (note 25(f))	–	(6,705)	–	–	–	–	(6,705)
Share issuance costs	–	–	(10,336)	–	–	–	(10,336)
Transfer to share premium account	–	(14,801)	14,801	–	–	–	–
Loss for the year	–	–	–	–	–	(33,149)	(33,149)
Transfer to statutory reserve	–	–	–	123	–	(123)	–
At 31 December 2003	<u>40,271</u>	<u>84,299</u>	<u>–</u>	<u>538</u>	<u>48</u>	<u>(64,514)</u>	<u>60,642</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 26. RESERVES (Continued)

#### Company

	Contributed surplus (note d) HK\$'000	Share premium HK\$'000	Share issuance costs (note b) HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
At 1 January 2002	—	—	—	—	—
Effect of the Reorganisation	9,492	—	—	—	9,492
Share issuance costs	—	—	(4,465)	—	(4,465)
At 31 December 2002	<u>9,492</u>	<u>—</u>	<u>(4,465)</u>	<u>—</u>	<u>5,027</u>
At 1 January 2003	9,492	—	(4,465)	—	5,027
Issue of shares to pre-listing investors	—	40,168	—	—	40,168
Issue of shares by placing and public offer	—	65,637	—	—	65,637
Capitalisation issue	—	(6,705)	—	—	(6,705)
Share issuance costs	—	—	(10,336)	—	(10,336)
Transfer to share premium account	—	(14,801)	14,801	—	—
Loss for the year	—	—	—	(4,384)	(4,384)
At 31 December 2003	<u>9,492</u>	<u>84,299</u>	<u>—</u>	<u>(4,384)</u>	<u>89,407</u>

- (a) On 27 and 28 November 2002, Global Digital Creations Limited transferred its entire shareholdings in and receivables of HK\$74,916,000 from GDC Technology Limited, GDC Entertainment Limited and GDC China Limited to GDC Holdings Limited in consideration of and exchange for which GDC Holdings Limited (i) allotted and issued 521,418,075 ordinary shares of US\$0.01 each to Global Digital Creations Limited; and (ii) assumed certain loans and a convertible note owed by Global Digital Creations Limited totalling approximately HK\$34,272,000 by way of novation.

On 28 November 2002, Global Digital Creations Limited transferred its entire shareholding in GDC Holdings Limited to GDC (BVI) Limited in consideration of and exchange for GDC (BVI) Limited's allotment and issuance of 521,418,075 ordinary shares of US\$0.01 each to Global Digital Creations Limited. On the same date, Global Digital Creations Limited distributed its entire equity interests in GDC (BVI) Limited to its shareholders by way of distribution in specie on a pro-rata basis.

On 31 December 2002, the shareholders of GDC (BVI) Limited transferred the entire share capital of GDC (BVI) Limited to the Company in consideration of and exchange for the Company's allotment and issuance of 40,000,000 ordinary shares of HK\$0.01 each to the shareholders on a pro-rata basis.

The difference between the nominal value of the shares of GDC (BVI) Limited and the nominal value of the Company's shares issued in exchange therefor pursuant to the Reorganisation is accounted for as contributed surplus of the Group.

- (b) The share issuance costs were written off against the share premium account upon the listing of the Company's shares on GEM.
- (c) As stipulated by the rules and regulations in China mainland, foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. IDMT Shenzhen and IDMT Shanghai, as wholly foreign owned enterprises established in the PRC, are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of their share capital thereafter any further appropriation is optional and is determinable by the companies' board of directors. The statutory reserve as at 31 December 2003 represents general reserve fund of IDMT Shenzhen of approximately HK\$538,000 (2002: HK\$415,000) which can only be used, upon approval by the relevant authority, to offset prior years' losses or to increase capital.
- (d) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the consolidated net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating loss to cash used in operations

	2003 HK\$'000	2002 HK\$'000
Operating loss	(28,045)	(15,633)
Depreciation	4,013	2,701
Interest income	(156)	(22)
Net (gain)/loss on disposal of fixed assets	(658)	1
Operating loss before working capital changes	(24,846)	(12,953)
Increase in inventories	(3,564)	–
Increase in production work in progress	(25,837)	(21,534)
Increase in trade receivables	(2,759)	(69)
Increase in prepayments, deposits and other receivables	(4,598)	(964)
(Decrease)/increase in advances from a director	(182)	290
(Decrease)/increase in advances from an officer	(3,300)	3,300
(Decrease)/increase in advances from a shareholder	(12)	12
Increase in amount due from a related company	(19)	–
Increase in training fees received in advance	1,133	311
Increase in trade payables	2,566	–
Increase in other payables and accrued charges	11,328	1,223
Cash used in operations	(50,090)	(30,384)

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Analysis of changes in financing during the year

	Share capital including premium HK\$'000	Amounts due (from)/ to a related company HK\$'000	Bank loan HK\$'000	Convertible note HK\$'000	Other loans HK\$'000	Loans from shareholders HK\$'000	Obligations under finance leases HK\$'000
At 1 January 2002	400	10,928	–	–	–	–	2,495
Share issuance costs	(4,465)	–	–	–	–	–	–
Increase in amount due to a related company	–	23,414	–	–	–	–	–
New loans under finance leases	–	–	–	–	–	–	13,960
Payment of finance lease obligations	–	–	–	–	–	–	(3,585)
Drawdown of long-term bank loan	–	–	14,143	–	–	–	–
Novation of convertible note and loans	–	(34,272)	–	7,800	8,500	17,972	–
Increase in loans from shareholders	–	–	–	–	–	1,674	–
At 31 December 2002	<u>(4,065)</u>	<u>70</u>	<u>14,143</u>	<u>7,800</u>	<u>8,500</u>	<u>19,646</u>	<u>12,870</u>
At 1 January 2003	(4,065)	70	14,143	7,800	8,500	19,646	12,870
Issue of shares to pre-listing investors	40,200	–	–	–	–	–	–
Issue of shares by placing and public offer	66,300	–	–	–	–	–	–
Share issuance costs	(10,336)	–	–	–	–	–	–
Decrease in amount due to a related company	–	(89)	–	–	–	–	–
New loans under finance leases	–	–	–	–	–	–	1,218
Inception of finance leases	–	–	–	–	–	–	7,188
Payment of finance lease obligations	–	–	–	–	–	–	(7,775)
Drawdown of long-term bank loan	–	–	14,143	–	–	–	–
Redemption of convertible note	–	–	–	(7,800)	–	–	–
Drawdown of other loans	–	–	–	–	2,000	–	–
Payment of other loans	–	–	–	–	(10,500)	–	–
Increase in loans from shareholders	–	–	–	–	–	1,025	–
Payment of loans from shareholders	–	–	–	–	–	(9,135)	–
At 31 December 2003	<u>92,099</u>	<u>(19)</u>	<u>28,286</u>	<u>–</u>	<u>–</u>	<u>11,536</u>	<u>13,501</u>

#### (c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of approximately HK\$7,188,000 (2002: HK\$Nil).

On 27 and 28 November 2002, an amount of HK\$74,916,000 due to Global Digital Creations Limited was applied to offset against the novation of Convertible Note and loans from shareholders and other loans to GDC Holdings Limited and the remaining balance of HK\$40,644,000 was capitalised pursuant to the Reorganisation which was deemed to be effected prior to 1 January 2002.

In addition, share issuance costs of HK\$3,232,000 payable as at 31 December 2002 was accounted for as a deduction from equity.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 28. COMMITMENTS

#### (a) Capital commitments

At 31 December 2003, the Group had the following capital commitments relating to leasehold improvements:

	2003 HK\$'000	2002 HK\$'000
Authorised but not contracted for	–	–
Contracted but not provided for	–	247
	<u>–</u>	<u>247</u>

At 31 December 2003, the Company did not have any significant capital commitment (2002: Nil).

#### (b) Operating lease commitments/arrangements

##### (i) Lessee – where the Group is the lessee

The Group had total future minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	6,421	3,000
In the second to fifth year inclusive	15,674	3,913
	<u>22,095</u>	<u>6,913</u>

##### (ii) Lessor – where the Group is the lessor

The Group had total future minimum lease receipts in respect of computer equipment under non-cancellable operating lease as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	<u>260</u>	<u>–</u>

In respect of digital film encoders and servers held in use for operating lease, the lease agreement does not contain a fixed lease term, accordingly, the total minimum lease receipts have not been disclosed in the above.

##### (iii) At 31 December 2003, the Company did not have any significant operating leases commitments (2002: Nil).

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 29. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Rental expense paid to Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, in respect of a Director quarter	(a)	336	224
Rental expense paid to Mr. Anthony Francis Neoh in respect of a staff quarter	(b)	96	96
Rental expense paid to Solutions Lab Pte Ltd in respect of an office premise	(c)	181	17
Legal and professional fees paid to O'Melveny and Myers LLP	(d)	<u>780</u>	<u>328</u>

*Notes:*

- (a) On 26 April 2002, GDC China Limited, a subsidiary of the Company, entered into a lease agreement with Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, for the lease of residential premise as a Director quarter. The Group paid a monthly rental of HK\$28,000 to Ms. Lau Fung Sim for a period of two years commencing from 7 May 2002.
- (b) The Group leased a staff quarter from Mr. Anthony Francis Neoh for a term of one year commencing from 15 October 2001 at a monthly rental of HK\$8,000. The lease agreement was renewed on 2 October 2002 and 15 February 2004 with similar terms and the lease was extended to 15 October 2004.
- (c) On 12 August 2002, the Group entered into a sub-tenancy agreement with Solutions Lab Pte Ltd, a related company of Cyber Prime Developments Limited, a shareholder of the Company, for the sublease of an office premise in Singapore. The Group paid a monthly rental of S\$1,000 for a period of one year commencing from 1 September 2002. On 12 May 2003, the Group entered into a supplemental sub-tenancy agreement with Solutions Lab Pte Ltd for the sublease of a larger portion of the office premise in Singapore at a monthly rental of S\$4,800 commencing from 15 May 2003 to 31 December 2003.
- (d) During the year, the Group paid approximately HK\$780,000 (2002: HK\$328,000), for legal and professional services rendered by O'Melveny and Myers LLP, a law firm in the United States of America. Mr. Stephen Scharf, an independent non-executive Director of the Company, is one of the partners of O'Melveny and Myers LLP.
- (e) On 15 January 2000, GDC Entertainment Limited, a subsidiary of the Company, entered into an assignment with Moebius Strip Limited (formerly known as Butterfly Dance Holdings Limited), in which Mr. Raymond Dennis Neoh is one of the shareholders, for the assignment of the copyright and all other rights in and to the Film. Pursuant to the assignment (which was supplemented by a supplemental agreement dated 2 May 2003), the assignment consideration consists of (i) US\$60,000; (ii) deferred net profit from the Group's film production of *Thru the Moebius Strip* up to a maximum of US\$240,000 should the Group's film production generates a net profit as defined in the assignment; and (iii) 3% of the net profit from the Group's production of *Thru the Moebius Strip* in excess of US\$240,000 from time to time. As at 31 December 2003, the intellectual property rights as referred to in (i) above of approximately HK\$467,000 (equivalent to US\$60,000) was paid and is included in production work in progress. The equity interest held by Mr. Raymond Dennis Neoh was sold to a third party during the year ended 31 December 2003.

### 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 19 March 2004.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 2. UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2004

The following is the reproduction of the announcement of GDC Group dated 13 August 2004 in relation to the unaudited financial information for the six months ended 30 June 2004.

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the three months and the six months ended 30 June 2004*

	Note	Unaudited			
		Three months ended		Six months ended	
		30 June	30 June	30 June	30 June
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	9,370	2,701	15,291	4,159
Cost of sales		(7,177)	(1,664)	(12,065)	(2,723)
Gross profit		2,193	1,037	3,226	1,436
Other revenue	2	475	–	479	–
Other operating income		–	28	–	658
Administrative expenses		(9,419)	(4,616)	(18,664)	(9,128)
Other operating expenses		(1,144)	(764)	(2,153)	(1,410)
Operating loss	3	(7,895)	(4,315)	(17,112)	(8,444)
Finance costs		(1,142)	(1,756)	(2,182)	(3,220)
Loss for the period		<u>(9,037)</u>	<u>(6,071)</u>	<u>(19,294)</u>	<u>(11,664)</u>
Loss per share					
Basic	5	<u>(1.14 cents)</u>	<u>(0.92 cents)</u>	<u>(2.46 cents)</u>	<u>(1.76 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*Note:* There were no extraordinary items, exceptional items nor minority interests for the six months ended 30 June 2003 and 30 June 2004.

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	Note		
Non-current assets			
Fixed assets	6	34,843	35,984
Deferred tax assets	14	151	151
		34,994	36,135
Current assets			
Inventories, at cost	8	6,038	3,564
Production work in progress	7	93,454	75,666
Trade receivables	9	5,132	2,828
Prepayments, deposits and other receivables		4,820	5,902
Amounts due from a related company		19	19
Bank balances and cash			
– Pledged		2,000	–
– Unpledged		3,596	21,889
		115,059	109,868
Current liabilities			
Bank overdraft, secured		3,873	–
Bank loan, secured	13	28,286	14,143
Training fees received in advance		1,095	2,255
Advances from a director		–	416
Trade payables	9	4,741	2,566
Current portion of long-term liabilities	13	7,352	7,354
Other payables and accrued charges		17,237	11,204
Loans from shareholders	10	5,486	–
Other loans		7,797	7,797
		75,867	45,735
Net current assets		39,192	64,133
Total assets less current liabilities		74,186	100,268
Financed by:			
Share capital	11	8,008	7,800
Reserves	12	49,487	60,642
Shareholders' funds		57,495	68,442
Non-current liabilities			
Loans from a shareholder	10	11,536	11,536
Long-term liabilities	13	5,155	20,290
		74,186	100,268

**NOTES TO CONDENSED ACCOUNTS**

**1. Basis of preparation of the unaudited condensed accounts**

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

The accounting policies and methods of computation used in the preparation of these unaudited condensed accounts are consistent with those used in the financial statement for the year ended 31 December 2003.

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

**2. Turnover, revenue and segment information**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Training fees	1,083	517	2,169	1,200
Sales of goods	8,202	2,108	12,999	2,810
Box office receipts from distribution of digital motion pictures	–	38	–	73
Rental income from equipment leasing	–	19	–	38
Franchise fee from digital cinema for use of equipment	85	19	123	38
	<u>9,370</u>	<u>2,701</u>	<u>15,291</u>	<u>4,159</u>
Other revenue				
Interest income	2	–	6	–
Other income	<u>473</u>	<u>–</u>	<u>473</u>	<u>–</u>
Total revenues	<u><u>9,845</u></u>	<u><u>2,701</u></u>	<u><u>15,770</u></u>	<u><u>4,159</u></u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

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

	Six months ended 30 June 2004				
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>–</u>	<u>13,122</u>	<u>2,169</u>	<u>–</u>	<u>15,291</u>
Segment results	<u>(3,722)</u>	<u>(4,534)</u>	<u>(3,847)</u>		<u>(12,103)</u>
Unallocated costs					<u>(5,009)</u>
Operating loss					<u>(17,112)</u>
Finance costs					<u>(2,182)</u>
Loss for the period					<u>(19,294)</u>
	Six months ended 30 June 2003				
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>–</u>	<u>2,959</u>	<u>1,200</u>	<u>–</u>	<u>4,159</u>
Segment results	<u>(1,682)</u>	<u>(3,879)</u>	<u>(516)</u>		<u>(6,077)</u>
Unallocated costs					<u>(2,367)</u>
Operating loss					<u>(8,444)</u>
Finance costs					<u>(3,220)</u>
Loss for the period					<u>(11,664)</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 3. Operating loss

Operating loss is stated after crediting and charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Crediting				
Gain on disposal of fixed assets	<u>–</u>	<u>28</u>	<u>–</u>	<u>658</u>
Charging				
Cost of inventories sold	5,624	763	7,424	977
Depreciation ( <i>note a</i> )	560	909	1,187	1,800
Exchange loss, net	19	21	27	40
Operating lease rentals on land and buildings ( <i>note b</i> )	525	288	1,029	584
Research and development costs ( <i>note c</i> )	1,126	743	2,126	1,370
Staff costs ( <i>note c</i> )	<u>3,203</u>	<u>1,635</u>	<u>6,886</u>	<u>3,531</u>

Notes:

#### (a) Depreciation

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation				
– owned assets	547	751	3,756	1,441
– leased assets	<u>1,056</u>	<u>1,473</u>	<u>2,021</u>	<u>2,977</u>
	1,603	2,224	5,777	4,418
Less: amounts included in production work in progress	<u>(1,043)</u>	<u>(1,315)</u>	<u>(4,590)</u>	<u>(2,618)</u>
	<u>560</u>	<u>909</u>	<u>1,187</u>	<u>1,800</u>

#### (b) Operating lease rentals on land and buildings

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating lease rentals on land and buildings	897	664	1,776	1,337
Less: amounts included in production work in progress	<u>(372)</u>	<u>(376)</u>	<u>(747)</u>	<u>(753)</u>
	<u>525</u>	<u>288</u>	<u>1,029</u>	<u>584</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

(c) Staff costs (including directors' emoluments)

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)				
– wages and salaries	7,746	5,590	16,012	11,315
– other allowances and benefits	246	369	367	755
– retirement benefit costs	5	249	587	496
	<u>7,997</u>	<u>6,208</u>	<u>16,966</u>	<u>12,566</u>
Less: amounts included in production work in progress	(3,668)	(3,830)	(7,954)	(7,665)
Less: amounts included in research and development costs	<u>(1,126)</u>	<u>(743)</u>	<u>(2,126)</u>	<u>(1,370)</u>
	<u>3,203</u>	<u>1,635</u>	<u>6,886</u>	<u>3,531</u>

#### 4. Taxation

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in or deriving from Hong Kong during the half year period to 30 June 2004 (2003: nil).

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

#### 5. Loss per share

Basic loss per share for the three months and the six months ended 30 June 2004 are calculated based on the loss for the period of HK\$9,037,000 and HK\$19,294,000 respectively and on an weighted average number of 790,753,187 shares and 785,376,593 shares respectively.

The comparative basic loss per share for the three months and the six months ended 30 June 2003 are calculated based on the loss for the period of HK\$6,071,000 and HK\$11,664,000 respectively and on an aggregate of 663,462,647 shares and 661,790,619 shares respectively, comprising (i) weighted average number of 40,203,765 shares and 40,102,446 shares respectively in issue and capitalization issue for the pre-listing investors of 3,158,871 shares and 1,588,162 shares respectively deemed to be in issue during the period; and (ii) 620,100,001 shares issued pursuant to the capitalization issue for the then shareholders upon completion of the Reorganisation, which were deemed to have been in issue since 1 January 2002.

Diluted loss per share for the three months ended 30 June 2004 is not presented because there was no dilutive potential ordinary shares in existence during the period (three months and six months ended 30 June 2003: Not applicable).

#### 6. Fixed assets

	HK\$'000
Net book value as at 1 January 2004	35,984
Additions	4,586
Transfer in/(out)	50
Disposals	–
Depreciation	<u>(5,777)</u>
Net book value as at 30 June 2004	<u>34,843</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 7. Production work in progress

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Production costs incurred, at cost	<u>93,454</u>	<u>75,666</u>

Production work in progress represents production costs incurred for the film titled “*Thru the Moebius Strip*” (the “Film”), a movie project which has been completed, and “*Panshel’s World*” a 52-episode animated series of television programme which is currently under production by the Group. The Directors are of the opinion that the production costs incurred as at 30 June 2004 are fully recoverable.

Interest in the Film was pledged as security to secure payments to a third party for services rendered in connection with the production of the Film.

### 8. Inventories, at cost

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Raw materials	2,827	938
Finished goods	<u>3,211</u>	<u>2,626</u>
	<u>6,038</u>	<u>3,564</u>

### 9. Trade receivables and trade payables

Aging analysis of trade receivables is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within three months	4,795	2,699
Three to six months	181	13
Over six months	<u>156</u>	<u>116</u>
	<u>5,132</u>	<u>2,828</u>

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

Aging analysis of trade payables is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within three months	3,881	2,170
Three to six months	855	396
Over six months	<u>5</u>	<u>–</u>
	<u>4,741</u>	<u>2,566</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 10. Loans from shareholders

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Repayable within one year:		
Mr. Anthony Francis Neoh	2,329	–
Bright Oceans Corporation (HK) Limited	3,157	–
	<u>5,486</u>	<u>–</u>
Repayable later than one year:		
Mr. Anthony Francis Neoh	11,536	11,536
	<u>17,022</u>	<u>11,536</u>

The loans from Mr. Anthony Francis Neoh and Bright Oceans Corporation (HK) Limited, both shareholders of the Company, are unsecured and bear interest at the best lending rate from time to time plus 3% per annum.

### 11. Share capital

	Note	Ordinary shares of HK\$0.01 each Number of shares	HK\$'000
Authorised:			
At 30 June 2004 and 31 December 2003		<u>1,200,000,000</u>	<u>12,000</u>
Issued and fully paid:			
At 1 January 2004		780,000,000	7,800
Placement of new shares on 14 May 2004	(a)	<u>20,820,000</u>	<u>208</u>
At 30 June 2004		<u>800,820,000</u>	<u>8,008</u>

#### Notes:

- (a) On 5 May 2004, the Company announced that a placing and subscription agreement was entered into between Kingsway Financial Services Group Limited (“Kingsway”) and the Company pursuant to which Kingsway had placed a total of 20,820,000 ordinary shares of HK\$0.01 each to independent placees at a subscription price of HK\$0.42 per share.
- (b) At a special general meeting of the Company held on 18 July 2003, the share option scheme was approved and adopted. 14,300,000 share options were granted during the period to 30 June 2004 to directors of the Company under the share option scheme.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 12. Reserves

	Contributed surplus (note a) HK\$'000	Share premium HK\$'000	Share issuance costs (note b) HK\$'000	Statutory reserve (note c) HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	40,271	–	(4,465)	415	48	(31,242)	5,027
Issue of shares	–	40,168	–	–	–	–	40,168
Share issuance costs	–	–	(4,604)	–	–	–	(4,604)
Loss for the period	–	–	–	–	–	(11,664)	(11,664)
At 30 June 2003	<u>40,271</u>	<u>40,168</u>	<u>(9,069)</u>	<u>415</u>	<u>48</u>	<u>(42,906)</u>	<u>28,927</u>
At 1 January 2004	40,271	84,299	–	538	48	(64,514)	60,642
Issue of shares	–	8,536	–	–	–	–	8,536
Share issuance costs	–	(397)	–	–	–	–	(397)
Loss for the period	–	–	–	–	–	(19,294)	(19,294)
At 30 June 2004	<u>40,271</u>	<u>92,438</u>	<u>–</u>	<u>538</u>	<u>48</u>	<u>(83,808)</u>	<u>49,487</u>

- (a) The difference between the nominal value of the shares of GDC (BVI) Limited and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation is accounted for as contributed surplus of the Group.
- (b) The share issuance costs were written off against the share premium account upon the listing of the Company's shares on GEM in August 2003.
- (c) As stipulated by the rules and regulations in China mainland, foreign investment enterprise are required to appropriate part of their after-tax profit (after offsetting prior year's losses) to certain statutory reserves. 環球數碼媒體科技研究(深圳)有限公司("IDMT"), as a wholly foreign owned enterprise established in the PRC, is required to appropriate 10% of its after-tax profit (after offsetting prior year's losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital thereafter any further appropriation is optional and is determinable by the Company's board of directors. The statutory reserve as at 31 December 2003 and 30 June 2004 represented the general reserve fund of IDMT of approximately HK\$415,000 and HK\$538,000 respectively, which can only be used, upon approval by the relevant authority, to offset prior year losses or to increase capital.

### 13. Long-term liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Bank loans, secured	28,286	28,286
Obligations under finance leases	<u>12,507</u>	<u>13,501</u>
	40,793	41,787
Current portion included in current liabilities	<u>(35,638)</u>	<u>(21,497)</u>
	<u>5,155</u>	<u>20,290</u>

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

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### 14. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using rates of taxation prevailing in the countries in which the Group operates.

The movement on the deferred tax assets is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Deferred tax assets	<u>151</u>	<u>151</u>

Deferred income tax assets are recognised for tax loss carried forward and other deductible temporary difference to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 30 June 2004, the Group had unrecognised tax losses of HK\$3,779,000 (2003: HK\$948,000) to carry forward against future taxable income; these tax losses have no expiry date. In addition, the Group has unrecognised temporary difference arising from unrealised profit resulting from intra-group transactions of HK\$19,794,000 (2003: HK\$19,794,000). The Group did not recognise the deferred tax assets for such deductible temporary difference as the utilisation of the temporary difference is uncertain.

### 15. Capital commitments

At 30 June 2004, the Group had no significant capital commitments. (31 December 2003: nil)

### 16. Approval of the condensed accounts

The condensed accounts were approved by the board of directors on 13 August 2004.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 3. UNAUDITED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

The following is the reproduction of the announcement of GDC Group dated 12 November 2004 in relation to the unaudited financial information for the nine months ended 30 September 2004.

#### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

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

*Note:* There were no extraordinary items, exceptional items nor minority interests for the nine months ended 30 September 2002 and 30 September 2003.

## NOTES TO UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

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

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

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

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

### 2. Turnover and revenues

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

	Three months ended 30 September		Nine months ended 30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Training fees	1,222	280	3,367	1,480
Sales of goods	636	1,471	13,636	4,281
Box office receipts from distribution of digital motion pictures	–	25	24	98
Rental income from equipment leasing	19	19	104	57
Franchise fee from digital cinema for use of equipment	19	19	56	57
	<u>1,896</u>	<u>1,814</u>	<u>17,187</u>	<u>5,973</u>
Other revenue				
Interest income	1	74	7	74
Other income	35	–	508	–
	<u>36</u>	<u>74</u>	<u>515</u>	<u>74</u>
Total revenues	<u><u>1,932</u></u>	<u><u>1,888</u></u>	<u><u>17,702</u></u>	<u><u>6,047</u></u>

### 3. Taxation

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

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

### 4. Dividends

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

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

### 5. Loss per share

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

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

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

### 6. Reserves

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

(a) The difference between the nominal value of the shares of GDC (BVI) Limited and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation is accounted for as contributed surplus of the Group.

(b) The share issuance costs were written off against the share premium account upon the listing of the Company's shares on GEM in August 2003.

(c) As stipulated by the rules and regulations in China mainland, foreign investment enterprise are required to appropriate part of their after-tax profit (after offsetting prior year's losses) to certain statutory reserves. 環球數碼媒體科技研究(深圳)有限公司 ("IDMT"), as a wholly foreign owned enterprise established in the PRC, is required to appropriate 10% of its after-tax profit (after offsetting prior year's losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital thereafter any further appropriation is optional and is determinable by the Company's board of directors. The statutory reserve as at 30 September 2003 and 30 September 2004 represented the general reserve fund of IDMT of approximately HK\$415,000 and HK\$538,000 respectively, which can only be used, upon approval by the relevant authority, to offset prior year losses or to increase capital.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE GDC GROUP

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### 4. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the GDC Group had outstanding borrowings of approximately HK\$77,261,000, which was analysed as follows:

	<i>HK\$'000</i>
Bank loans secured by the pledge of the equity interest in a subsidiary of the GDC Group	28,286
Unsecured loans from shareholders of GDC	26,567
Obligations under finance lease	10,224
Unsecured other loans	8,797
Bank overdraft secured by the pledge of bank deposits of the GDC Group as at 30 November 2004 of approximately HK\$2,000,000	3,387
	<hr/>
	77,261
	<hr/> <hr/>

Save as disclosed above, and apart from intra-group liabilities, the GDC Group did not have outstanding at the close of business on 30 November 2004 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

On 1 December 2004, SCG Finance Corporation Limited agreed to provide an unsecured loan facility of up to an aggregate principal amount of HK\$20,000,000 for GDC to be used solely for fulfilling GDC's working capital requirements and repayment of short-term borrowing at an annual interest rate of Hong Kong Dollar prime rate plus 3%, to be repaid in full by GDC 90 days from first drawdown date of 1 December 2004. As at the Latest Practicable Date, GDC has withdrawn in aggregate approximately HK\$13.8 million for the aforesaid purposes. SCG Finance Corporation Limited, a wholly owned subsidiary of SCG, has a money lenders licence.

### 5. MATERIAL CHANGES

Saved for the information as disclosed in the quarterly reports for the three months ended 31 March 2004 and nine months ended 30 September 2004 and the interim report for the six months ended 30 June 2004 respectively, the Directors are not aware of any material change in the financial or trading position or prospects of GDC Group since 31 December 2003, the date to which the latest published audited financial statements of the GDC Group were made up.

## 1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules and the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Offeror, SCG and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those of or in relation to Offeror, SCG and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained herein, the omission of which would make any statement contained herein (other than that relating to Offeror, SCG and parties acting in concert with it) misleading.

The information contained herein relating to Offeror, SCG and parties acting in concert with it and their intention with respect to the GDC Group and information contained herein relating to the Offers has been extracted from the Offer Document. The Directors jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

## 2. SHARE CAPITAL AND SHARE OPTIONS

### (a) Share capital

<i>Authorised share capital:</i>	<i>HK\$</i>
1,200,000,000 GDC Shares	12,000,000
<i>Issued, fully paid or credited as fully paid as at the Latest Practicable Date:</i>	
800,820,000 GDC Shares	8,008,200

All the GDC Shares rank pari passu in all aspects, including all rights as to dividend, voting and interests in the capital.

The GDC Shares are listed on and traded on the GEM of the Stock Exchange. No GDC Shares are listed on or dealt in, nor is any listing of or permission to deal in the GDC Shares being, or proposed to be, sought on any other stock exchange. 20,820,000 GDC Shares have been issued since 31 December 2003 (being the date to which the latest published audited consolidated accounts of the GDC Group were made up) and up to the Latest Practicable Date. The proceeds from the issue of the said 20,820,000 GDC Shares were used as general working capital of the GDC Group.

### (b) Share options

#### Sotas Options

Sotas Options are share options granted by GDC to Sotas Limited on 5 June 2003 by which Sotas Limited is entitled to acquire 8,331,615 new GDC Shares from GDC within 36 months from 4 August 2003, the date of listing of the GDC Shares, at an aggregate exercise price of US\$600,000.

No Sotas Options had been exercised by Sotas Limited up to the Latest Practicable Date.

### GDC Share Option Scheme

The principal purpose of the GDC Share Option Scheme is to enable GDC to grant options to eligible participants as incentives or rewards for their contributions to the GDC Group.

As at the Latest Practicable Date, GDC has 14,300,000 GDC Options outstanding under the GDC Share Option Scheme. No share option under the GDC Share Option Scheme had been exercised up to the Latest Practicable Date. Such 14,300,000 GDC Options may be exercised at any time during the period from 24 June 2004 to 17 July 2013 at an exercise price of HK\$0.44 each GDC Option.

As at the Latest Practicable Date, other than disclosed in the paragraphs 2(a) and 2(b) above, GDC did not have any outstanding equity securities (including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital).

### 3. MARKET PRICES

The table below shows the closing prices of the GDC Shares quoted on the Stock Exchange on (i) the last trading day for each of the six calendar months immediately preceding the date of Joint Announcement, (ii) the Last Trading Day; (iii) the last day on which trading took place in each of the calendar months after the Joint Announcement up to the Latest Practicable Date and (iv) the Latest Practicable Date:

Date	Closing price per Share HK\$
31 May 2004	0.405
30 June 2004	0.360
30 July 2004	0.340
31 August 2004	0.168
30 September 2004	0.128
29 October 2004 being the Last Trading Day	0.115
30 November 2004	0.140
31 December 2004	0.123
Latest Practicable Date	0.130

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$0.44 on 21 June 2004 and HK\$0.110 on 27 October 2004 respectively. There are no other securities of GDC which are listed on the Stock Exchange.

#### 4. DISCLOSURE OF INTERESTS

##### (a) Interests of the directors and chief executives of GDC

As at the Latest Practicable Date, the interests of the Directors and chief executive of GDC in the GDC Shares, underlying GDC Shares and debentures of GDC or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to GDC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by GDC pursuant to section 352 of the SFO; or (iii) were required to be notified to GDC and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules; or (iv) were required to be disclosed in this document pursuant to the Takeovers Code were as follows:

##### (i) Long positions in GDC Shares

Name of Director	Number of GDC Shares	Capacity	Approximate percentage of interest (%)
Mr. Raymond Dennis Neoh	43,511,452	Interest in a controlled corporation ( <i>note 1</i> )	5.43
Dr. David Deng Wei	20,779,090	Interest in a controlled corporation and beneficiary of a trust ( <i>note 2</i> )	2.59
Mr. Gordon Kwong Che Keung	200,000	Beneficiary of a trust ( <i>note 3</i> )	0.02
Professor Japhet Sebastian Law	200,000	Beneficiary of a trust ( <i>note 4</i> )	0.02
Mr. Stephen Scharf	200,000	Beneficiary of a trust ( <i>note 5</i> )	0.02

##### Notes:

- 3,318,450 GDC Shares were held by Madam Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh. The remaining balance of the 40,193,002 GDC Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.
- The 20,579,090 of these GDC Shares were held by Bright Oceans Corporation (HK) Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by Dr. David Deng Wei. The balance of the 200,000 GDC Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Dr. David Deng Wei.
- The 200,000 GDC Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Gordon Kwong Che Keung.
- The 200,000 GDC Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Professor Japhet Sebastian Law.
- The 200,000 GDC Shares were held in a trust account opened in the name of Mr. Mak Yau Kee, Adrian in trust for Mr. Stephen Scharf.

## (ii) Long positions in equity derivatives in, or in respect of, underlying GDC Shares

Name of Director	Number and description of equity derivatives	Number of underlying GDC Shares	Capacity	Approximate percentage of interest (%)
Mr. Anthony Francis Neoh	32,201,692 options granted under the FS Scheme (note 6)	32,201,692	Beneficial owner (note 7)	4.02

## Notes:

6. On 20 March 2003, the shareholders of Forward Strategic Investments Limited, had by written resolution, adopted a share option scheme ("FS Scheme") also dated 20 March 2003, wherein its board is entitled to grant options to grantees such that they can purchase a total of 61,015,197 GDC Shares from Forward Strategic Investments Limited pursuant to the terms of the FS Scheme. The exercise price for the 32,201,692 options is HK\$1.00 in aggregate which shall be exercised on or before 19 March 2013.
7. Mr. Anthony Francis Neoh has been granted options under the FS Scheme, which when exercised by him, entitle him to subscribe for a total of 32,201,692 GDC Shares.

## (iii) Short positions in equity derivatives in, or in respect of, underlying GDC Shares

Name of Director	Number and description of equity derivatives	Number of underlying GDC Shares	Capacity	Approximate percentage of interest (%)
Mr. Raymond Dennis Neoh	254,315,518 (note 8)	254,315,518	Interest in a controlled corporation (note 8)	31.76
Mr. Anthony Francis Neoh	124,974,230	124,974,230	Beneficial owner (note 9)	15.61

## Note:

8. 214,122,516 of these GDC Shares were held by Upflow Holdings Limited, a company incorporated in British Virgin Islands ("BVI") with limited liability and wholly-owned by Mr. Raymond Dennis Neoh. The remaining balance 40,193,002 GDC Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited. On 24 January 2005, Upflow Holdings Limited has tendered 214,122,516 GDC Shares for acceptance of the Share Exchange Offer. Pursuant to the terms of the FS Scheme, the grantees may purchase 61,015,197 GDC Shares according to its terms and conditions. As at the Latest Practicable Date, an aggregate of 20,822,195 GDC Shares had been purchased from Forward Strategic Investments Limited, leaving a balance of 40,193,002 GDC Shares available for purchases by other grantees under the FS Scheme in future. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited (which is wholly owned by Mr. Raymond Dennis Neoh), Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited. As at the Latest Practicable Date, each of the 5 grantees under the FS Scheme was entitled to subscribe for 32,201,692 GDC Shares, 5,387,778 GDC Shares, 1,388,603 GDC Shares, 1,214,926 GDC Shares and 3 GDC Shares (representing in aggregate 40,193,002 GDC Shares) respectively. Each lot of options under the FS Scheme shall be exercised by a grantee on or before 19 March 2013 at an aggregate exercise price of HK\$1.00.
9. The 124,974,230 GDC Shares were held by Mr. Anthony Francis Neoh directly. On 21 January 2005 and 25 January 2005, Mr. Anthony Francis Neoh has tendered 20,820,000 GDC Shares and 104,154,230 GDC Shares respectively for acceptance of the Share Exchange Offer.

**(b) Directors' rights to acquire GDC Shares**

As at the Latest Practicable Date, 14,300,000 options have been granted under the GDC Share Option Scheme to the Directors as follows, which are to be vested under designated time schedules.

Name of Director	Number and description of equity derivatives under the GDC Share Option Scheme	Number of underlying GDC Shares	Capacity	Approximate percentage of interest (%)
Dr. David Deng Wei	8,000,000 options	8,000,000	Beneficial owner (note 10)	1.00
Mr. Gordon Kwong Che Keung	2,100,000 options	2,100,000	Beneficial owner (note 11)	0.26
Professor Japhet Sebastian Law	2,100,000 options	2,100,000	Beneficial owner (note 11)	0.26
Mr. Stephen Scharf	2,100,000 options	2,100,000	Beneficial owner (note 11)	0.26

*Notes:*

10. Three tranches of 3,000,000, 3,000,000, and 2,000,000 options shall be vested on the date of approval of the grant of the option, the first and the second anniversary dates of the approval, respectively. The exercise price for each GDC Share is HK\$0.44 which shall be exercisable on or before 17 July 2013.
11. Three tranches of 700,000 options each shall be vested on the dates of approval of the grant of the option, the first and the second anniversary date of the approval. The exercise price for each GDC Share is HK\$0.44 which shall be exercisable on or before 17 July 2013.

Save as disclosed in the paragraphs 4(a) and 4(b) above, as at the Latest Practicable Date, to the knowledge of GDC, none of the Directors or chief executive of GDC had any interests or short positions in the GDC Shares, underlying GDC Shares or debentures of GDC or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to GDC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept by GDC pursuant to section 352 of the SFO; or (c) otherwise to be notified to GDC and the Stock Exchange pursuant to the Rule 5.46 of the GEM Rules or which were required to be disclosed in this document pursuant to the requirements of the Takeovers Code.

**Interests in the Offeror and arrangement affecting Directors**

As at the Latest Practicable Date,

- (a) there is no benefit (other than statutory compensation) to be given to any Director as compensation for loss of office or otherwise in connection with the Offers and there are no agreements or arrangements between any Director and any other person which is conditional or dependent upon the outcome of the Offers or otherwise connected with the Offers;

- (b) there are no material contracts entered into by the Offeror and/or SCG in which any Director has a material personal interest.

**Other disclosure of interests**

- (a) As at the Latest Practicable Date:
  - (i) GDC did not own or had any interest in any securities of SCG and/or the Offeror;
  - (ii) no Directors owned or had any interest in any securities of SCG and/or the Offeror;
  - (iii) no member of the GDC Group or any pension fund of any member of the GDC Group owned or had any interest in any securities of GDC or SCG or the Offeror;
  - (iv) none of First Shanghai, Deloitte Touche Tohmatsu, Partners Capital International Limited or any advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code owned or had any interest in any securities of GDC or SCG or the Offeror; and
  - (v) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between GDC, or any person who was an associate of GDC by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code, and any other person.
- (b) During the period commencing 6 months prior to 19 November 2004 and ending on the Latest Practicable Date:
  - (i) GDC had not dealt for value in any securities of SCG and/or the Offeror;
  - (ii) no Directors had dealt for value in any securities of SCG and/or the Offeror;
  - (iii) save as the transfer of 3,318,450 options in GDC and 1,500,000 options in GDC granted under the FS Scheme from Mr. Raymond Dennis Neoh to Madam Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, in consideration of HK\$1.00 and a third party not connected with the directors, chief executive and substantial shareholders of GDC, in consideration of HK\$1.00 respectively on 20 December 2004, no Directors had dealt for value in any securities of GDC;
  - (iv) on 20 December 2004, Madam Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, exercised in full the 3,318,450 options in GDC as transferred from Mr. Raymond Dennis Neoh in consideration of HK\$1.00;
  - (v) no member of the GDC Group or any pension fund of any member of the GDC Group had dealt for value in any securities of GDC or SCG or the Offeror;
  - (vi) none of First Shanghai, Deloitte Touche Tohmatsu, Partners Capital International Limited or any advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code had dealt for value in any securities of GDC or SCG or the Offeror;
  - (vii) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with GDC or any person who was an associate of GDC by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code had dealt for value in any securities of GDC or SCG or the Offeror; and

- (viii) no fund manager connected with GDC who managed the shareholdings of GDC on a discretionary basis had dealt for value in any securities of GDC or SCG or the Offeror.

## 5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or chief executive of GDC, the following persons, other than the interests disclosed above in the paragraph “Interests of the Directors of GDC”, had interest or short position in GDC Shares or underlying GDC Shares which would fall to be disclosed to GDC under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of any member of the GDC Group:

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

Name	No. of GDC Shares/ equity derivatives	Capacity	Approximate percentage of interest (%)
Sotas Limited	63,875,717	Beneficial owner ( <i>note 1</i> )	7.98
Morningside Cyberventures Holdings Limited	63,875,717	Interest in a controlled corporation ( <i>note 1</i> )	7.98
Verrall Limited	63,875,717	Interest in a controlled corporation ( <i>note 1</i> )	7.98
Ms. Chan Tan Ching Fen	63,875,717	Founder of a trust ( <i>note 1</i> )	7.98
Forward Strategic Investments Ltd.	40,193,002	Beneficial owner ( <i>note 2</i> )	5.02
Global Digital Creations Ltd.	40,193,002	Interest in a controlled corporation ( <i>note 2</i> )	5.02

*Notes:*

- Of the 63,875,717 GDC Shares/equity derivatives, 55,544,102 GDC Shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Madam Chan Tan Ching Fen, who was taken to be interested in the GDC Shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the GDC Shares on GEM. On 5 June 2003, Sotas Limited was granted the Sotas Option. As at the Latest Practicable Date, the Sotas Option has not been exercised. Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited were considered as initial management shareholders of GDC at the time of listing of GDC. Save for the aforementioned, Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited do not have any relationship with Raymond Dennis Neoh, Anthony Francis Neoh and their respective associates.
- The 40,193,002 GDC Shares were held by Forward Strategic Investments Limited, a wholly-owned subsidiary of Global Digital Creations Limited. Global Digital Creations Limited is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh.

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

Name	Number and description of equity derivatives	Number of underlying GDC Shares	Capacity	Approximate percentage of interest (%)
Upflow Holdings Limited	254,315,518 (notes 3 and 4)	254,315,518	Beneficial owner and interest in a controlled corporation (notes 3 and 4)	31.76
Forward Strategic Investments Limited	40,193,002 (note 4)	40,193,002	Interest in a controlled corporation (note 4)	5.02
Global Digital Creations Limited	40,193,002 (note 4)	40,193,002	Interest in a controlled corporation (note 4)	5.02

*Note:*

3. The 214,122,516 GDC Shares were held by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh. 3,318,450 GDC Shares were held by Madam Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh. On 24 January 2005, Upflow Holdings Limited has tendered 214,122,516 GDC Shares for acceptance of the Share Exchange Offer.
4. Pursuant to the terms of the FS Scheme, the grantees may purchase the 61,015,197 GDC Shares according to its terms and conditions. As at the Latest Practicable Date, an aggregate of 20,822,195 GDC Shares had been purchased from Forward Strategic Investments Limited, leaving a balance of 40,193,002 GDC Shares available for purchases by other grantees under the FS Scheme in future. As Forward Strategic Investments Limited is a wholly-owned subsidiary of Global Digital Creations Limited, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Mr. Raymond Dennis Neoh, Global Digital Creations Limited, Upflow Holdings Limited and Mr. Raymond Dennis Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic Investments Limited.

**6. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into the ordinary course of business carried on) have been entered into by GDC or members of the GDC Group since 20 November 2002 (being two years immediately preceding the commencement of the offer period in relation to the Offers) and up to the Latest Practicable Date and are or may be material:–

- (i) a deed of novation dated 28 November 2002, made between GDC Holdings Limited, Global Digital Creations Limited and E-Talent Investments Limited, under the terms of which Global Digital Creations Limited agreed to transfer the loan together with outstanding interests which it owed to E-Talent Investments Limited in the amount of HK\$5,880,047.94 to GDC Holdings Limited, by way of novation;
- (ii) a deed of novation dated 28 November 2002, made between GDC Holdings Limited, Global Digital Creations Limited and Sotas Limited, under the terms of which Global Digital Creations Limited agreed to transfer the loans together with outstanding interest which it owed to Sotas Limited, in an aggregate amount of HK\$7,859,616.45 to GDC Holdings Limited, by way of novation. This deed of novation further provided for Global Digital Creations Limited and GDC Holdings Limited to undertake to, prior to the listing date (i.e. 4 August 2003), issue to Sotas Limited and/or any of its designates, share options to subscribe for new Shares in replacement of certain options previously issued by Global Digital Creations Limited to Sotas Limited. The Company has therefore granted to Sotas Limited the Sotas Option.
- (iii) a deed of novation dated 28 November 2002, made between GDC Holdings Limited, Global Digital Creations Limited and Anthony Francis Neoh, under the terms of which Global Digital Creations Limited agreed to transfer the loan together with outstanding interests which it owed to Anthony Francis Neoh, in the amount of HK\$9,660,783.57 to GDC Holdings Limited, by way of novation;
- (iv) a deed of novation dated 27 November 2002 made between GDC Holdings Limited, Global Digital Creations Limited and Kingsway SW Finance Limited, under the terms of which Global Digital Creations Limited agreed to transfer the loan together with outstanding interests which it owed to SW Finance Limited, in the amount of HK\$1,723,162.22 to GDC Holdings Limited, by way of novation;
- (v) a deed of novation dated 27 November 2002, made between GDC Holdings Limited, Global Digital Creations Limited and William Ka Chung Lam, under the terms of which Global Digital Creations Limited agreed to transfer the loan together with outstanding interests which it owed to William Ka Chung Lam, in the amount of HK\$1,035,234.26 to GDC Holdings Limited, by way of novation;
- (vi) a deed of novation dated 27 November 2002, made between GDC Holdings Limited, Global Digital Creations Limited and Richard Yingneng Yin, under the terms of which Global Digital Creations Limited agreed to transfer the loan together with outstanding interests which it owed to Richard Yingneng Yin, in the amount of HK\$310,607.81 to GDC Holdings Limited, by way of novation;

- (vii) a deed of novation dated 27 November 2002, made between GDC Holdings Limited, Global Digital Creations Limited and Middle Asia Limited, under the terms of which GDC Holdings Limited agreed to take over the benefits and obligations of Global Digital Creations Limited under the subscription agreement between Global Digital Creations Limited and Middle Asia Limited, by way of novation, as if GDC Holdings Limited had been named as a party thereto in substitution of Global Digital Creations Limited;
- (viii) an agreement dated 16 December 2002, between the GDC Group and Adlabs Film Limited, pursuant to which Adlabs Film Limited agreed to sell and the GDC Group agreed to purchase 3,200 shares of Adlabs D2C Applications Pvt Ltd, a wholly owned subsidiary of Adlabs Film Limited, representing an 8% equity interest in Adlabs D2C Applications Pvt Ltd. The purchase of the said 3,200 shares is conditional upon, among other things, the successful listing of the Shares on GEM and the consideration thereof shall be US\$1,000,000;
- (ix) a sale and purchase agreement dated 31 December 2002 entered into amongst, inter alia, the Company and the then existing shareholders of GDC (BVI) Limited, whereby the Company acquired from the then existing shareholding of GDC (BVI) Limited the entire issued share capital of GDC (BVI) Limited, in consideration for the issue and allotment of an aggregate of 30,000,000 Shares, credited as fully paid and to credit as fully paid at par the 10,000,000 Shares issued nil paid to Upflow Holdings Limited on 7 November 2002;
- (x) a deed of indemnity dated 31 December 2002 given by Raymond Dennis Neoh, Anthony Francis Neoh and Upflow Holdings Limited in favour of the GDC Group in relation to taxation and estate duty.
- (xi) an agreement (in Chinese) dated 23 January 2003, made between IDMT, the Company and Zhanjiang Dong Hai. Under the terms of this agreement, Zhanjiang Dong Hai agreed to invest in IDMT an amount of RMB2,000,000 (equivalent to approximately HK\$1,886,000) (“Zhanjiang Dong Hai investment”). This agreement also provided for the GDC Group to convert the Zhanjiang Dong Hai investment into Shares upon listing of the Shares, at a conversion rate of 75% of the issue price (i.e. HK\$1). If conversion of the Zhanjiang Dong Hai investment into Shares fails to take place within one year from the listing date (4 August 2003), the GDC Group shall buy back such investment at 105% from Zhanjiang Dong Hai. This agreement was subsequently cancelled on 9 June 2003 by mutual agreement of all parties, upon which Zhanjiang Dong Hai was entitled to demand for the repayment of RMB1,300,000 (which had already been paid to IDMT as deposit) from 30 July 2003 onwards;
- (xii) an agreement dated 7 February 2003 between the Company and Asia Investment Capital, pursuant to which Asia Investment Capital agreed to act as the Company’s sponsor in respect of the listing of GDC for a fee;
- (xiii) an agreement concluded on 19 March 2003 between the Company and CM-CCS, pursuant to which CM-CCS agreed to act as the Company’s lead manager, bookrunner and financial adviser for a fee;

- (xiv) an agreement dated 27 March 2003 made between the Company, Asia Investment Management Limited and CM-CCS, pursuant to which Asia Investment Management Limited and CM-CCS agreed to procure necessary interim financing for the Company on a best endeavours basis for a finder's fee on the total funds raised on a success basis;
- (xv) an agreement dated 1 April 2003 between the Company and Kingsway Capital, pursuant to which Kingsway Capital agreed to act as the Company's financial adviser in respect of the listing of GDC for a fee;
- (xvi) a share subscription agreement (in Chinese) dated 10 June 2003, made between the Company, Overseas Chinese Town and Upflow Holdings Limited as guarantor. Under the terms of this share subscription agreement, Overseas Chinese Town agreed to subscribe for not less than 4.87% of Shares at the aggregate subscription price of HK\$28,500,000. According to this share subscription agreement, if the Company fails to have its Shares listed on GEM by 30 November 2003, Overseas Chinese Town will be entitled to exercise a buyback option pursuant to which the Company is obliged to repurchase the aforesaid Shares subscribed by Overseas Chinese Town at HK\$28,500,000 (plus interest based on the London Interbank Offer Rate over the relevant period);
- (xvii) a share subscription agreement (in Chinese) dated 12 June 2003, made between the Company and CITIC International Assets Management Limited. Under the terms of this share subscription agreement, CITIC International Assets Management Limited agreed to subscribe for not less than 2.00% of Shares at the aggregate subscription price of HK\$11,700,000;
- (xviii) the underwriting agreement dated 23 July 2003 made between, among others, the Company and the underwriters relating to the listing of GDC;
- (xix) a sponsor agreement dated 23 July 2003 entered into between the Company and the Asia Investment Capital whereby Asia Investment Capital will act as the Company's sponsor for the period commencing from (and including) the listing date (being 4 August 2003) and ending on (and including) 31 December 2005 or the date on which the arrangement set out in the agreement is terminated pursuant to the terms and conditions set out therein, whichever is earlier; and
- (xx) a joint venture agreement dated 25 June 2004 made between GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of GDC and Gameone Online Entertainment Group Limited ("Gameone Online"), pursuant to which GDC Holdings and Gameone Online agreed to incorporate and subscribe for 600,000 and 400,000 shares, being 60% and 40% interest respectively, in GDC.GAMEONE LIMITED, for a respective cash consideration of HK\$600,000 and HK\$400,000, to engage in the business of development and production of on-line video games and other related industries.

**7. DIRECTORS' SERVICE CONTRACTS**

Raymond Dennis Neoh, the sole executive Director, has entered into a service agreement with the Company whereby he will serve as an executive Director. Particulars of such contract are set out below:

- (a) the service agreement is for an initial term of three years commencing from 18 July 2003 and will continue thereafter until terminated by either party giving to the other not less than three calendar months' prior notice in writing;
- (b) the remuneration per month, subject to review annually by the Board, and decided by the majority in number of members of the Board, of Raymond Dennis Neoh is HK\$100,000;
- (c) the executive Director is entitled to such year-end bonus (if any) as determined by the Board and decided by the majority in number of the members of the Board provided that the total amount of bonuses payable to all Directors for such year shall not exceed 15% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items and the payment of such bonus;
- (d) the executive Director is also entitled to all reasonable out-of-pocket expenses and medical benefits; and
- (e) the executive Director shall abstain from voting and shall not be counted in the quorum at any meeting of the Board at which the Board is to determine the remuneration and year-end bonus payable to him.

As at the Latest Practicable Date, save as disclosed above, there are no service contracts with GDC or any of its subsidiaries or associated companies in force for the Directors which have more than 12 months to run. No service contracts have been entered into or amended within 6 months before the commencement of the offer period in relation to the Offers.

**8. LITIGATION**

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of GDC entered into a Co-production Agreement (the "Co-production Agreement") with Westwood Audiovisual and Multimedia Consultants, Inc. ("WAMC") and Production and Partners Multimedia, SAS ("P&PM") in relation to an animated television series.

In November 2004, P&PM issued a summary summons against WAMC and GDC Entertainment before the Court of Commerce of Angoulême (France), in respect of the appointment of an agent which would oversee the co-production. GDC's French legal adviser has advised GDC that the appointment of an agent was not enforceable in any event in PRC where the production is taking place. At that time, the Board considers that the claim had no financial impact.

A hearing took place on 11 January, 2005. During the course of the proceedings, the claims against GDC Entertainment have been modified. P&PM and WAMC are claiming in their new brief either to be granted the right to substitute a new producer of the “same nationality” in replacement of GDC Entertainment pursuant to Article 15 of the Co-production Agreement, or the appointment of an expert whose task would be basically to assess the parties respective liabilities.

In the afternoon of 13 January 2005, the Board was informed by GDC’s French legal adviser by fax of the change of the claim. GDC was advised by its French legal advisers that this new claim does not in any event affect accrued rights, as even if GDC were substituted, the monies invested by GDC are recoverable as an account payable under the co-production. After consideration of the advice from the French legal adviser, the Directors believe that this new claim does not have an immediate financial impact on GDC, although the Directors will have to consider in the coming months, the further conduct of the litigation and devise ways with its legal advisers to protect GDC’s overall interests in the co-production.

As at the Latest Practicable Date, save as disclosed above, neither GDC nor any of its subsidiaries was engaged in any litigation or claims which is in the opinion of the Directors of material importance and no litigation or claims which is in the opinion of the Directors of material importance is known to the Directors of to be pending or threatened by or against any member of the GDC Group.

## **9. CONSENTS AND QUALIFICATION**

The following are the qualifications of the experts who have given opinion or recommendation which are contained in this document:

<b>Name</b>	<b>Qualification</b>
First Shanghai Deloitte Touche Tohmatsu	A deemed licensed corporation registered under the SFO Certified public accountants, Hong Kong

Each of First Shanghai and Deloitte Touche Tohmatsu has given and has not withdrawn their respective written consents to the issue of this document with the inclusion herein of their respective letters or recommendations (as the case may be) and references to their names, in the form and context in which they respectively appear.

Each of First Shanghai and Deloitte Touche Tohmatsu has no shareholding in any member of the GDC Group on the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the GDC Group.

Each of First Shanghai and Deloitte Touche Tohmatsu has no direct or indirect interest in any assets which have since 31 December 2003 (being the date to which the latest published audited accounts of the GDC Group were made up) been acquired or disposed of by or leased to any member of the GDC Group, or are proposed to be acquired or disposed of by or leased to any member of the GDC Group.

**10. GENERAL**

- (a) The registered office of GDC is situated at Clarendon House, 2 Church Street Hamilton HM 11 Bermuda. The principal place of business of the Offeror is at Suite 1804-5, Hutchison House, 10 Harcourt Road Central Hong Kong.
- (b) The secretary of GDC is Ms. Mak Lai Yu Amelia.
- (c) The qualified accountant of GDC is Mr. Chin Kin Wah, FCCA, CPA(UK)
- (d) The English text of this document shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the office of Gallant Y.T. Ho & Co. at 5th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong while the Offers remain open for acceptance:

- (a) the memorandum of association and the bye-laws of GDC;
- (b) the annual report of GDC for the year ended 31 December 2003, the interim report for the six months ended 30 June 2004 and the quarterly reports of GDC for the three months ended 31 March 2004 and for the nine months ended 30 September 2004 respectively;
- (c) the letter of advice from First Shanghai contained in this document;
- (d) the letter from the Independent Board Committee contained in this document;
- (e) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (f) the service contract of Raymond Dennis Neoh dated 18 July 2003; and
- (g) the written consents referred to in the paragraph headed “Consents” in this appendix.