



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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2005

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This announcement, for which the directors (the “Directors”) of Global Digital Creations Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2005, together with the unaudited comparative figures for the corresponding period in 2004, which are set out as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2005

		Three months ended	
		31 March	
		2005	2004
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	5,750	5,920
Cost of sales		(3,368)	(4,888)
Gross profit		2,382	1,032
Rental expense written back		3,394	–
Other operating income		17	4
Distribution costs		(1,090)	(149)
Administrative expenses		(10,120)	(10,492)
Loss from operations		(5,417)	(9,605)
Finance costs		(1,620)	(1,040)
Loss before income tax		(7,037)	(10,645)
Income tax	3	–	–
Net loss for the period		(7,037)	(10,645)
		HK cents	HK cents
Loss per share	5		
Basic		(0.88)	(1.36)
Diluted		N/A	N/A

NOTES TO UNAUDITED FINANCIAL STATEMENTS

For the three months ended 31 March 2005

1. Basis of preparation

The unaudited consolidated results of the Group have been prepared under historical cost convention and, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Company had in aggregate 22,631,615 share options outstanding as at 31 December 2004. In accordance with the new HKFRSs, the fair value of these share options at grant date should have been amortised over the relevant vesting periods to the income statement, and this treatment should be applied retrospectively. However, on 13 January 2005, Shougang Concord Grand (Group) Limited (“SCG”), now the holding company of the Company, issued an offer document in respect of a voluntary conditional cash offer to cancel all the outstanding options of the Company (the “Cash Offer”). As at 31 March 2005, all the share options granted have been cancelled in accordance with the Cash Offer. There will not be any impact of the fair value of the share options on the income statement of the first quarter of 2005 and, in view of such, no prior year adjustment is done to the accumulated losses brought forward nor the results for the first quarter of 2004.

The accounting policies and methods of computation used in preparing the unaudited consolidated results for the three months ended 31 March 2005 are consistent with those used in the audited financial statements for the year ended 31 December 2004.

The Group incurred losses of approximately HK\$7,037,000 for the period ended 31 March 2005 and the Group had net current liabilities of approximately HK\$25,760,000 as at 31 March 2005. Notwithstanding, the directors are of opinion that the preparation of these financial statements under going concern basis is appropriate due to the following considerations:

(1) Bank borrowing’s restructuring

The Group signed an agreement with a bank to extend the maturity date of a bank loan of RMB13,000,000, or equivalent to approximately HK\$12,257,000, from March 2005 to March 2006.

In addition, another bank loan of RMB15,000,000 or equivalent to approximately HK\$14,143,000 borrowed from Bank of China, Shenzhen branch has to be repaid in 3 November 2005. However, the directors are of the opinion that the maturity date is likely to be extended for a further year.

(2) Other loan from SCG Finance Corporation Limited, a wholly-owned subsidiary of SCG

SCG is incorporated in Bermuda as an exempted company with limited liability with its shares listed on the Stock Exchange. SCG became the holding company of the Group in March 2005 and the directors are of the opinion that SCG will provide continuous financial support to the Group.

(3) Loans from a director

The loans advanced from Mr. Anthony Francis Neoh of approximately HK\$18,237,000 has been confirmed by him that he will not seek repayment from the Group within twelve months from 31 December 2004 or a date upon which such repayment would not have material adverse effect on the operation of the Group.

2. Turnover

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on training fee, distribution of digital motion pictures and franchise fee, rental income from equipment leasing and CG creation and production income during the period.

An analysis of the Group's turnover is as follows:

	Three months ended	
	31 March	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sales of goods	3,808	4,602
Training fee	1,526	1,085
Rental income from equipment leasing	346	214
Franchise fee from digital cinema for use of equipment	19	19
CG creation and production income	51	–
	<u>5,750</u>	<u>5,920</u>

3. Income Tax

No provision for Hong Kong Profits Tax has been made in the financial statements for both periods as the Group had no assessable profit arising in Hong Kong.

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

4. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: Nil).

5. Loss per share

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$7,037,000 (2004: HK\$10,645,000) and the weighted average of 800,820,000 shares (2004: 780,000,000 shares) in issue during the period.

No diluted loss per share has been calculated for the period ended 31 March 2005 as the exercise of the share options would result in a decrease in the loss per share. Diluted loss per share was not presented for the period ended 31 March 2004 because there was no potential ordinary shares in existence for that period.

6. Reserves

	Share premium account HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Statutory reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2005	92,438	40,271	680	34	(194,992)	(61,569)
Exchange differences on translation of overseas operations not recognised in the consolidated income statement	–	–	–	64	–	64
Net loss for the period	–	–	–	–	(7,037)	(7,037)
At 31 March 2005	<u>92,438</u>	<u>40,271</u>	<u>680</u>	<u>98</u>	<u>(202,029)</u>	<u>(68,542)</u>
At 1 January 2004	84,299	40,271	538	48	(64,514)	60,642
Net loss for the period	–	–	–	–	(10,645)	(10,645)
At 31 March 2004	<u>84,299</u>	<u>40,271</u>	<u>538</u>	<u>48</u>	<u>(75,159)</u>	<u>49,997</u>

7. Comparative figure

Certain comparative figures have been re-classified to conform with current period's presentation.

FINANCIAL OVERVIEW

Turnover of the Group for the three months ended 31 March 2005 was HK\$5,750,000 which, when compared with the turnover of HK\$5,920,000 for the three months ended 31 March 2004, represented a slight decrease of approximately 2.9%. The slight decrease in turnover is mainly due to the decrease in sales of digital cinema equipment as a result of a relatively less sales orders have been placed than the original plan by the Group's one major Indian customer and other exhibitors in the regions during the period under review. However, the lost of sales in Indian and other exhibitors in the regions is partly compensated by the increase of sales in Europe. European market contributed 42% to the Group turnover for the three months ended 31 March 2005. Moreover, the contributions from substantially increment in income from training fee by 41% and rental income from equipment leasing by 62% also offset the impact on the decrease in sales of digital cinema equipment.

The Group made a gross profit of HK\$2,382,000 for the three months to 31 March 2005 (2004: HK\$1,032,000), representing a gross profit margin of approximately 41% (2004: 17%).

Following the support by the Shanghai Government in January 2005, an outstanding rental expense totaled HK\$3,394,000 due to a landlord in respect of the office of a subsidiary, Institute of Digital Media Technology (Shanghai) Limited ("IDMT (SH)"), in Shanghai was paid and settled by the Shanghai Government on behalf of IDMT (SH). As a result, the Group recorded it as a rental expense written back in the income statement during the period under review.

Distribution costs for the three months ended 31 March 2005 totaled HK\$1,090,000 (2004: HK\$149,000). The increase in the distribution costs was mainly due to the screen advertisement placed at theatres during the period under review.

Administrative expenses for the three months ended 31 March 2005 totaled HK\$10,120,000 (2004: HK\$10,492,000), represented a decrease of approximately 4%. The decrease in the administrative expenses was attributable to the improvement in cost control by the Group.

Finance costs for the three months ended 31 March 2005 totaled HK\$1,620,000, which represented mainly the interest costs for the two bank loans denominated in Renminbi, finance costs for computer equipment leasing and interest cost for loans from SCG. (2004: HK\$1,040,000). The increase in finance costs was mainly due to the loans from SCG which were raised starting from November 2004.

Overall, the Group incurred a net loss of HK\$7,037,000 for the three months to 31 March 2005, which represented an improvement of approximately 33.9% compared with the net loss of HK\$10,645,000 incurred in same period of last year.

BUSINESS REVIEW

The Company is progressing steadily from development stage to commercialization stage. Turnover were generated from the digital content distribution and exhibition business which comprised sales revenue of D-cinema products, training fee from CG training course, rental income from equipment leasing, and franchise fee from digital cinema.

Computer Graphics (“CG”) Creation and Production

Following the Group’s film “*Thru the Moebius Strip*” (the “Film”) relaunch at the American Film Market and received a good reception, contractual discussions have begun with a sales agent in major international markets, including the major European markets and the US domestic market. Postproduction is about to be completed in Australia and a sales effort is about to be launched at the Cannes Film Festival. The Film is due for release in the second half 2005 and it is expected that the Group will begin to be able to recognize income from release of the Film in 2005. With the quality of the Group’s CGI production being recognized through the Film, the Group is undertaking discussions with many parties on jobs for hire and co-productions.

During the month of January 2005, GDC Entertainment Limited, a subsidiary of the Company, had attended NAPTE (National Association of Producer & Television Executives) exhibition in Las Vegas. During the exhibition we were approached by several majors European and Canadian companies for CG co-production works and we have also performed tests for IDT-Mainframe for a CG direct to video movie and we have been asked to bid on the project. In addition, we have received a request for co-production for the TV series “*Thru the Moebius Strip*” by a Canadian company. Our US based marketing agent indicated that he is discussing a number of potential jobs for hire for television and film special effects. Whilst it is difficult to forecast whether any of these marketing efforts will bear fruit, the Group is encouraged by the active interest in the world market for our services.

Digital content distribution and exhibition

In 2004, the Group entered into the European market by winning the order from Europe largest electronic cinema network – CinemaNet Europe after going through an exhaustive evaluation process consisting 14 server manufacturers and four ranges of projectors. According to the January 2005, Issue 11 of High Definition magazine, CinemaNet Europe has a budget of £20 million for hardware, software and supporting infrastructures for a period of five years with contribution from the European Union’s MEDIA programme. The Group has completed deliver of 70 servers to CinemaNet Europe in 2004 and it expects to deliver more than 100 servers to CinemaNet Europe in 2005.

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

One of the latest additions to the Group's growing list of customers now included the Deng Xiao Ping Memorial Museum in China. Along with the China Research Institute of Film Science and Technology (CRIFST), the Group successfully installed a synchronized, multiple-server system in the museum. This enabled China's first 4k digital cinema theatre comprising multiple projectors synchronized by multiple servers with single frame accuracy. The 4k (3840 x 1024) images, encoded using EN1000 – DSR™ Digital Film Agile Encoder, are projected with 3 DLP Cinema™ projectors (1.3k each) in synchronization on the large screen, using 3 Cinema™ Servers.

In the first quarter of Year 2004, the Group has successfully entered into the Hong Kong market with a sale of one unit of D-cinema server; the first and only D-cinema screen in Hong Kong. The Group has continued to be a key manufacturer of digital cinema equipment. The Group was selected as the content delivery and display sponsor of Asia prominent entertainment event - Hong Kong International Film & TV Market ("Hong Kong Filmart"). Hong Kong Filmart is part of Hong Kong Entertainment Expo which is the first mega entertainment event in Asia to bring together film and television programming, film financing, a film festival, film awards, music and digital entertainment. This mega event, which brings together eight leading fixtures in Hong Kong's entertainment calendar and attended by more than 1,000 film and entertainment industry leaders. From 22-24 March 2005, 18 PLASMA, 9 LCD monitors and 5 projectors at the Hong Kong Filmart were centrally controlled by the Group's Servers that manage the delivery and playback of content in various resolutions and formats to different display devices. The Group was invited to speak at World's eminent D-cinema conferences such as NAB'04 Digital Cinema Summits.

The Group shall continue to deliver its DSR™ range of D-cinema equipment to customers around the world, and to increase its market share in the D-cinema market. The Group possesses both the high-end-D-cinema and economical electronic cinema server technologies and 2005 will see the Group to consolidate its market leadership for both digital and electronic cinema.

CG Training

The Group's training activities in Mainland China continue to attract talented artists and the attractive cost structure of the Group's computer animation studio combined with the quality of its work will form a formidable platform for a partnership with international strategic partners.

The Group continued to record revenue from the CG training course in Shenzhen and Shanghai, the PRC which are operating in co-operation with Shenzhen University and University of Shanghai for Science and Technology respectively. Turnover from CG training increased by approximately 41% for the period ended 31 March 2005, represented approximately 27% of the Group's turnover during the period under review. The increase was mainly attributable to the expansion of the Group's CG training center in Shanghai in terms of the number of the students served and courses offered during the period review.

OUTLOOK

The Group's performance will be expected to enhance from 1) the release of the Film in the second half of year 2005; 2) CG fees from the conclusion of production contracts for services work with many potential clients in the US, Europe, United Kingdom and PRC, with whom the marketing team are engaged in discussions; 3) the further development of the in-house

training work which has attracted nationwide attention with the result that the time has come to market training as a separate business in the PRC.

Following the successful completion of the voluntary conditional share exchange offer made by SCG in March 2005, SCG became the major shareholder of the Group. With the support of the financially strong and well connected major shareholder, the Group is uniquely positioned to pursue its business objective of becoming Asia' leading computer graphic content creator and start a new chapter in its life.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 March 2005, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rule"), were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Approximate percentage of interest
Mr. Raymond Dennis Neoh	3,318,450	Family interest	0.4%

Note: The 3,318,450 shares were held by Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh.

Save as disclosed above and the options holding under section headed "Share Options", as at 31 March 2005, none of the directors and the chief executive of the Company nor their associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHARE OPTIONS

Sotas Options

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

As at 31 March 2005, the share option to Sotas Limited had been cancelled.

Share Option Scheme

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

The following table discloses movements in the Company's share options during the period;

Name of director	Date of grant	Exercise price HK\$	Number of share options				
			Balance as at 1.1.2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Balance as at 31.3.2005
Dr. David Deng Wei	21.6.2004	0.44	8,000,000	–	–	8,000,000	–
Mr. Gordon Kwong Che Keung	21.6.2004	0.44	2,100,000	–	–	2,100,000	–
Professor Japhet Sebastian Law	21.6.2004	0.44	2,100,000	–	–	2,100,000	–
Mr. Stephen Scharf	21.6.2004	0.44	<u>2,100,000</u>	–	–	<u>2,100,000</u>	<u>–</u>
Total			<u>14,300,000</u>			<u>14,300,000</u>	<u>–</u>

Note:

14,300,000 share options could be exercised at any time during the period from 24 June 2004 to 17 July 2013. As at 31 March 2005, all of them had been cancelled.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share option scheme disclosed above, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, so far as is known to the Directors, the following, not being a Director or chief executive of the Company, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO:

Name Shareholder	Number of Shares held	Capacity	Approximate percentage of existing shareholding
Shougang Holding (Hong Kong) Limited	658,466,023 (Note 1)	Interest in controlled corporation	82.22%
Shougang Concord Grand (Group) Limited	658,466,023 (Note 1)	Interest in controlled corporation	82.22%
Upper Nice Assets Ltd.	658,466,023 (Note 1)	Beneficial Interest	82.22%
Sotas Limited	55,544,102 (Note 2)	Beneficial Interest	6.94%
Morningside CyberVentures	55,544,102 (Note 2)	Interest in controlled corporation	6.94%
Verrall Limited	55,544,102 (Note 2)	Interest in controlled corporation	6.94%
Mrs. Chan Tan Ching Fen	55,544,102 (Note 2)	Founder of a trust	6.94%

Notes:

1. Upper Nice Assets Ltd. is an indirectly wholly-owned subsidiary of Shougang Concord Grand (Group) Limited which is regarded to be held as to approximately 39% by Shougang Holding (Hong Kong) Limited as recorded under the register of SCG kept under Section 336 of the SFO. The interests held by Upper Nice Assets Ltd. are included in the interests held by both of SCG and Shougang Holding (Hong Kong) Limited.
2. The 55,544,102 shares were held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly owned subsidiary of Verrall Limited in its capacity as trustee of a family trust established by Mrs. Chan Tan Ching Fen, who was taken to be interested in the shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the shares on GEM.

Save as disclosed above, as at 31 March 2005, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPETING INTERESTS

Forward Strategic Investments Limited, a prior shareholder of the Company interested in approximately 5.02% of the share capital, held approximately 0.22% equity interest in DCDC Limited incorporated in the British Virgin Islands, which in turn held 100% equity interest in Digital Content Development Corporation Limited ("DCDC"), a company incorporated in Hong Kong, which is principally engaged in CG production in Hong Kong. Forward Strategic Investments Limited and its shareholders do not participate in the management of DCDC. Following the successful completion of voluntary conditional share exchange offer made by SCG in March 2005, SCG became the major shareholder of the Company, representing approximately 82.22% of the existing issued share capital of the Company. Forward Strategic Investments Limited ceased to be a shareholder of the Company. The director of Forward Strategic Investments Limited namely Mr. Raymond Dennis Neoh who is also a director of the Company, has confirmed that Forward Strategic Investments Limited will remain a passive investor in DCDC. The director confirmed that there has not been and will not be any transactions between the Group and DCDC.

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

SPONSOR'S INTERESTS

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

As at 31 March 2005, neither Goldbond Capital (Asia) Limited nor its directors, employees or associates (as referred to under note 3 to Rule 6.35 of the GEM Listing Rules) have any interests in any class of securities of the Company or any other members of the Group, or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee comprises Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law (independent non-executive directors), and Mr. Anthony Francis Neoh (non-executive director).

The Group's quarterly results for the three months ended 31 March 2005 have been reviewed by the audit committee, which is of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures have been made.

On behalf of the Board
Raymond Dennis Neoh
Executive Director

Hong Kong, 11 May 2005

As at the date of this announcement, the Board comprised Mr. Anthony Francis Neoh and Mr. Cao Zhong (Joint Chairmen and non-executive Directors); Mr. Raymond Dennis Neoh (Vice-chairman and executive Director); Dr. David Deng Wei (Vice-chairman and non-executive Director); and Mr. Chen Zheng (General manager and executive Director); Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Paul Kwan Yuen Chiu (independent non-executive Directors).

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and at the Company's website www.gdc-world.com.