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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)

ANNOUNCEMENT CHANGES IN THE USE OF THE IPO PROCEEDS APPLICATION OF THE PROCEEDS RAISED FROM THE POST-IPO PLACING AND UPDATED FINANCIAL INFORMATION ON THE GROUP

The Board announces further information relating to the application of net proceeds raised from the listing of the Shares by way of Public Offer and Placing on GEM of the Stock Exchange in August 2003, and its statement of business objectives as set out in the announcement of the Company dated 26 February 2004.

In May 2004, the Company through its placing agent, placed out a total of 20,820,000 Shares and net proceeds raised from the Post-IPO Placing amounted to approximately HK\$8.3 million. As at 30 June 2004, the entire amount of the net proceeds raised from the Post-IPO Placing had been utilised as working capital of the Group.

Investors/Shareholders are advised to exercise extreme caution in dealing in the securities of the Company.

Further to the results announcement of the Company for the six months ended 30 June 2004 (the "2004 Interim Results") dated 13 August 2004, the board (the "Board") of directors (the "Directors") of Global Digital Creations Holdings Limited (the "Company" and together with its subsidiaries, the "Group") announces changes in the application of net proceeds raised from the listing of the Shares by way of Public Offer and Placing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in August 2003 (the "IPO") (the "IPO Proceeds").

Unless otherwise defined, terms used herein shall have the same meanings as those defined in the prospectus of the Company dated 23 July 2003 (the "Prospectus").

* *For identification purposes only*

ACCELERATED USE OF THE IPO PROCEEDS

As it is disclosed in the 2004 Interim Results, turnover and net loss of the Group for the six months ended 30 June 2004 amounted to approximately HK\$15,291,000 and HK\$19,294,000 respectively. Due to the delayed revenue of the Group from the pre-sale of the film “Thru the Moebius Strip” (the “Film”), the Company had accelerated the use of the IPO Proceeds to carry out the operations of the Group as respectively mentioned in the Prospectus and the announcement of the Company dated 26 February 2004 (the “Announcement”).

A breakdown of the use of the IPO Proceeds as stated in the Announcement and the actual amounts utilised up to 30 June 2004 are summarised as follows:

	Use of the IPO Proceeds up to the six months ended 30 June 2004 as stated in the Announcement	Actual amounts utilised up to 30 June 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Strengthening management and international marketing team (<i>Note 1</i>)	–	1,264
Developing digital cinema distribution network (<i>Note 2</i>)	4,500	969
Research and development of digital cinema technologies (<i>Note 3</i>)	1,300	5,941
Production maintenance and co-financing (<i>Note 4</i>)	600	10,863
Working capital	–	1,463
	<hr/>	<hr/>
Total	<u>6,400</u>	<u>20,500</u>

Explanations for the accelerated use of the IPO Proceeds

Notes:

1. This amount was spent to accelerate the marketing efforts in the US in order to strengthen the Company's pipeline of future work.
2. The decrease in the amount spent on the development of digital cinema distribution network was due to the delay in the execution of the franchise business model as mentioned in the Announcement, but the position remains as stated in the Announcement.
3. The increase in the spending on research and development of digital cinema technologies was the result of (i) the continued efforts to upgrade the Group's digital cinema products to obtain market share and consolidate its branding, and (ii) the slower than expected revenue generation from the sale of the Group's products.

4. The increase in the spending on production maintenance and co-financing was due to the delay in the completion of the Film. As set out in the announcement for the 2004 Interim Results, the marketing and screening of the Film had to be delayed as a result of the delay in its completion, which had consequently affected the timing for the pre-sale of the Film. The Company had reported in its annual report for the year ended 31 December 2003 that due to the unavailability of studio and recording time for the post production work on the Film, which included the orchestral music recording at the studio in Bratislava, Czechoslovakia and the sound stage time for final sound mix in Los Angeles, the US, that the target date for the production of a final high-definition digital version of the Film was at the beginning of May 2004. The Directors now report that all the production work of the Film has now been completed, and intensive marketing of the Film is now taking place in the US. The Directors expect to begin generating further pre-sale revenues beyond US\$500,000, being the amount so far obtained from pre-sale of the Film in Portugal, Indonesia, Singapore, Thailand, Greece and the Gulf States, within the fourth quarter after a US distributor has been secured. Details of the pre-sale of the Film have been set out under the section headed “Business review” of the 2004 Interim Report.

As at the date of this announcement, the Company has one completed film which is also under pre-sale stage (namely, the Film) and one television series “Panshel’s World” under production stage.

As stated in the Prospectus, the IPO Proceeds amounted to approximately HK\$53.3 million. The Company had accelerated the use of the IPO Proceeds during the year ended 31 December 2003 to approximately HK\$32.8 million and had further utilised approximately HK\$20.5 million during the six months ended 30 June 2004, which in aggregate amounted to approximately HK\$53.3 million, an amount that was equivalent to the amount of the IPO Proceeds (i.e. the IPO Proceeds have been fully utilised). The Directors however expect that revenues from existing concluded production contracts entered into with EnterAktion Studios Inc. (an independent third party not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, and/or their respective associates) (the “EnterAktion Contracts”), continuing new orders for digital film servers placed with GDC Technology Limited (an indirect wholly owned subsidiary of the Company) by its recurring and newly-recruited customers and new animation work under active discussion will provide additional revenues to the Group. As at the date of this announcement, no revenue has been generated as a result of the entering of the EnterAktion Contracts.

However, to ensure that the Group will continue to meet its working capital requirements without adverse impact on its operations in the event any of these expected revenues are delayed, the Directors are looking into various plans to raise funds, including but not limited to, issue of new Shares for equity capital or convertible instruments. Such fund raising activities are at preliminary stage of discussion and therefore may or may not proceed. As at the date of this announcement, no agreements have been entered into by the Company. In order to meet the working capital requirements of the Group in the short term, the management shareholders (as defined in the GEM Listing Rules) of the Company will continue to provide financial assistance by way of shareholders’ loans, to the extent possible. As it is stated in the annual report of the Company for the year ended 31 December 2003, such financial assistance is provided by the management shareholders (as defined in the GEM Listing Rules) of the Company and is (i) on normal commercial terms, (ii) at the best lending rate as quoted by Hongkong and Shanghai Banking Corporation from time to time plus 3% per annum, (iii) unsecured with no fixed repayment terms. Such financial assistance constitutes a connected

transaction of the Company, however, it is based on better terms than the Company can obtain from other parties on even terms and conditions and should therefore be exempted from reporting, announcement and independent shareholders' approval requirements under Rule 20.65(4) of the GEM Listing Rules.

In addition, as mentioned above, the execution of the franchise business model as mentioned in the Announcement has been further delayed as a result of the decrease in the amount spent on the development of digital cinema distribution network. The Directors confirm that there is no change in the business models, which are set out in pages 2 to 4 of the Prospectus, except that the franchise business for digital content distribution and exhibitions has been delayed.

APPLICATION OF THE PROCEEDS RAISED FROM THE POST-IPO PLACING

As at the date of this announcement, the Company had conducted only one fund raising exercise since the IPO in August 2003. In May 2004, the Company through its placing agent, placed out a total of 20,820,000 Shares (the "Post-IPO Placing") and net proceeds raised from the Post-IPO Placing amounted to approximately HK\$8.3 million, which was intended to be used as working capital of the Group. As at 30 June 2004, the entire amount of the net proceeds raised from the Post-IPO Placing had been utilised as working capital of the Group.

FINANCIAL INFORMATION ON THE GROUP

The following are financial information on the Group extracted from the 2004 Interim Results:

	Unaudited 30 June 2004 HK\$'000	Unaudited 30 June 2003 HK\$'000
Non-current assets		
Fixed assets	34,843	25,446
Deferred tax assets	151	–
	<u>34,994</u>	<u>25,446</u>
Current assets		
Inventories, at cost	6,038	333
Production work in progress	93,454	55,961
Trade receivables	5,132	1,295
Prepayments, deposits and other receivables	4,820	11,964
Amounts due from a related company	19	–
Bank balances and cash		
– Pledged	2,000	3,120
– Unpledged	3,596	29,615
	<u>115,059</u>	<u>102,288</u>

	Unaudited 30 June 2004 <i>HK\$'000</i>	Unaudited 30 June 2003 <i>HK\$'000</i>
Current liabilities		
Bank overdraft, secured	3,873	–
Bank loan, secured (<i>Note 1</i>)	28,286	–
Training fees received in advance	1,095	–
Advances from directors	–	817
Trade payables	4,741	–
Current portion of long-term liabilities	7,352	6,408
Other payables and accrued charges	17,237	20,536
Amount due to Global Digital Creations Limited	–	5,781
Loans from shareholders (<i>Note 2</i>)	5,486	7,900
Other loans (<i>Note 3</i>)	7,797	8,500
	<u>75,867</u>	<u>49,942</u>
Non-current liabilities		
Loans from a shareholder (<i>Note 1</i>)	11,536	12,722
Long-term liabilities	5,155	35,711
	<u>16,691</u>	<u>48,433</u>
Net asset value	<u><u>57,495</u></u>	<u><u>29,359</u></u>

Notes:

1. The secured bank loans are obtained from Bank of China, Shenzhen branch (“BOC”) and Shenzhen Commercial Bank (“SCB”) of RMB15,000,000 (equivalent to approximately HK\$14,151,000) each. The loans are repayable on 31 October 2004 and 21 March 2005 to BOC and SCB respectively. The Group is currently negotiating with a PRC bank on the refinancing of a bank loan to replace the bank loan from BOC in the amount of RMB15,000,000 (equivalent to approximately HK\$14,151,000). The Directors are confident that this bank loan can be rolled over, without any adverse impact on the financial position of the Group.
2. There had been no repayment of shareholders’ loans with the IPO Proceeds after the IPO in August 2003. The decrease in the loans from a shareholder from approximately HK\$12,722,000 at 30 June 2003 to approximately HK\$11,536,000 at 30 June 2004 represented a part repayment prior to the IPO in August 2003. The Directors confirm that the undertaking that Mr. Anthony Francis Neoh had given that he will not demand repayment of the facility until the later of 12 months from 31 May 2003 or a date upon which such repayment would not have material adverse effect on the operation of the Group and implementation of the Group’s business objectives as set out in the Prospectus, remains valid.

- “Other loans” represents an unsecured advance, repayable on demand, from Shanghai Xin Chang Ning Group Corporation Ltd (“Shanghai XCN”), a company wholly owned by the Shanghai Municipal District of Chang Ning in the PRC. Should Shanghai XCN demands for repayment of such advance and the Company is unable to repay, the management shareholders (as defined in the GEM Listing Rules) of the Company will provide financial assistance to the Company, by way of shareholders’ loans, to the extent possible.

As at 12 August 2004, the Group had a cash balance of approximately HK\$3,526,000, which included a cash deposit of HK\$2,000,000 which has been pledged to a bank as security for a bank overdraft facility. As a result, this gave a cash available balance of approximately HK\$1,526,000. In addition, the Group’s bank overdraft balance as at 12 August 2004 amounted to approximately HK\$3,914,000, against a total credit facility of HK\$4,000,000.

For the remaining of the year ending 31 December 2004, apart from possible pre-sale proceeds from the Film, revenues from further sales of digital cinema servers and new animation work under discussion, the Directors expect the following revenue generating activities from existing concluded contracts (including but not limited to the EnterAktion Contracts and the Film):

	Amount involved <i>(HK\$'000)</i>	Expected time of realisation <i>(2004)</i>
Cash receipts of fees from CG training courses	1,886	Third quarter
Cash receipts from trade debtors, which were generated from the sale of digital cinema equipment (<i>Note 1</i>)	4,265	Third quarter
Advance payment for the production fee (<i>Note 2</i>)	<u>11,700</u>	Third quarter
Total:	<u><u>17,851</u></u>	

Notes:

- The majority of these trade debtors are less than 3 months old.
- As stated in the 2004 Interim Results, EnterAktion Studios Inc. has informed GDC Entertainment Limited (an indirect wholly owned subsidiary of the Company) that pre-financing discussions for the three movies are progressing smoothly, and it expects the pre-financing to be in place sometime within the third quarter of 2004. A report regarding, among others, the aforementioned matters, has been submitted by the chief executive officer of the Company to the Board in August 2004, and based on such report, the Directors expect that an advance payment of US\$1,500,000 (equivalent to approximately HK\$11,700,000) for the production fee totaling US\$5,000,000 (equivalent to approximately HK\$39,000,000) for the first of the three movies to be produced under the production agreement dated 6 June 2004 shall be received during the third quarter of 2004.

The total production costs incurred up to 30 June 2004 for the Film amounted to approximately HK\$86,000,000. The Directors anticipate that further post-production costs of color correction and production of master prints will not exceed HK\$2 million, and these costs will not need to be incurred until much closer to distribution date (which is anticipated to be during the fourth quarter of 2004) and when most of the pre-sale contracts have been signed. The Directors anticipate that further pre-sale contracts from the Film can be concluded during the fourth quarter of 2004, once that a US distribution is achieved. However, it is not possible to estimate the cash inflow from such pre-sale contracts for the third quarter of 2004, which is still in progress and depend on, among others, the outcome of the amount to be agreed for distributions in the US.

In addition to the abovementioned, the Company has received assurance from the Company's management shareholders (as defined in the GEM Listing Rules) that they will continue to provide financial assistance to the Company by way of shareholders' loans as far as they are able to, in order for the Group to meet its working capital requirements until the proceeds from the Film or other production contracts received. As at 30 June 2004, total loans from shareholders amounted to approximately HK\$17,022,000.

In the meantime, the Directors are in discussions with various potential investors, which are independent third parties not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, and/or their respective associates, with a view to raising additional equity capital, by way of issue of new Shares or convertible instruments. Such discussions are at a preliminary stage, without specific terms. Also, the Directors are considering ways to best position the Group's digital content distribution and exhibition business in the global environment. Shareholders will be kept informed of developments and announcements will be made, once any agreements have been reached, in compliance with the requirements of the GEM Listing Rules.

Taking into account the funds that are expected to be generated from the operations of the Group, and further financial assistance the extent possible from the management shareholders (as defined in the GEM Listing Rules) of the Company and the possible equity fund raising activities as mentioned above, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

Save as set out above, the Directors confirm that the abovementioned accelerated use of the IPO Proceeds has no material adverse impact on the operations and business of the Group and is not considered as price-sensitive information under Chapter 17 of the Listing Rules.

GENERAL

The Group is engaged in the integration of the entire value chain in the digital content business, encompassing creation, production (for its own projects and projects contracted to it by third parties) and distribution of digital contents, in order to meet two developing global trends of (i) strong continuing growth in demand for digital contents, particularly computer graphics imaging; and (ii) a paradigm shift from a chemical film based medium to an electronic, digital medium in the cinema industry. For a detailed current review of the business prospects of the Group, reference should be made to the 2004 Interim Results for the period and the business review and outlook contained therein.

As at the date of this announcement, the Directors confirm that there is no litigation, claims or damages against the Group.

Made by the order of the Board, the Directors of which collectively and individually accept responsibility for the accuracy of this announcement. Bases and assumptions made in this announcement have been made and reviewed by the Disclosure Policy Committee of the Company with due care and diligence.

Investors/Shareholders are advised to exercise extreme caution in dealing in the securities of the Company.

As at the date of this announcement, the Board comprised Mr. Anthony Francis Neoh (Chairman and non-executive Director); Dr. David Deng Wei (Vice-chairman and non-executive Director); Mr. Raymond Dennis Neoh (executive Director); Mr. Stephen Scharf (non-executive Director); Mr. Gordon Kwong Che Keung, and Professor Japhet Sebastian Law (independent non-executive Directors).

For and on behalf of the Board
Global Digital Creations Holdings Limited
Raymond Dennis Neoh
Executive Director

Hong Kong, 19 August 2004

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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, the information contained in this announcement is accurate and complete in all material respects and is not misleading; there are no other matters the omission of which would make any statement in this announcement misleading; and 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.

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