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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

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 the 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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* *For identification purpose only*

INTERIM RESULTS

The board of Directors of the Company (the "Board") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2011 with comparative figures for the corresponding periods in the year 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended 30 June 2011

		Three months ended 30 June		**Six months ended 30 June**	
		2011	2010	**2011**	2010
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue	*4*	**193,424**	131,113	**327,687**	254,282
Cost of sales		**(103,768)**	(76,189)	**(176,484)**	(143,744)
Gross profit		**89,656**	54,924	**151,203**	110,538
Other income and gains	*5*	**3,252**	2,782	**4,979**	6,460
Distribution costs and selling expenses		**(7,476)**	(3,724)	**(15,499)**	(6,092)
Administrative expenses		**(30,595)**	(21,176)	**(58,681)**	(35,299)
Finance costs	*6*	**(2,683)**	(370)	**(5,280)**	(370)
Other expenses and losses	*7*	**(2,283)**	(2,903)	**(4,956)**	(4,155)
Share of loss of an associate		**(46)**	(20)	**(81)**	(19)
Profit before tax		**49,825**	29,513	**71,685**	71,063
Income tax expense	*8*	**(9,582)**	(3,786)	**(15,982)**	(7,304)
Profit for the period	*9*	**40,243**	25,727	**55,703**	63,759
Other comprehensive income:					
Exchange differences arising on translation of foreign operations		**7,278**	2,709	**11,000**	2,709
Total comprehensive income for the period		**47,521**	28,436	**66,703**	66,468

	NOTE	Three months ended 30 June		Six months ended 30 June	
		2011	2010	**2011**	2010
	NOTE	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period attributable to:					
Owners of the Company		**18,988**	12,753	**22,448**	37,294
Non-controlling interests		**21,255**	12,974	**33,255**	26,465
		40,243	25,727	**55,703**	63,759
Total comprehensive income for the period attributable to:					
Owners of the Company		**24,830**	15,292	**31,178**	39,833
Non-controlling interests		**22,691**	13,144	**35,525**	26,635
		47,521	28,436	**66,703**	66,468
		HK cents	*HK cents*	***HK cents***	*HK cents*
Earnings per share:	*10*				
Basic		**1.47**	0.98	**1.73**	2.88
Diluted		**1.43**	0.98	**1.67**	2.88

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	**329,816**	312,578
Investment properties	*12*	**126,507**	95,395
Prepaid lease payments		**5,950**	5,875
Available-for-sale investment		**602**	588
Interest in an associate		**22,631**	22,196
Other receivables	*13*	**45,878**	42,024
		531,384	478,656
Current assets			
Inventories	*14*	**70,580**	58,870
Productions work in progress		**14,737**	13,241
Amounts due from customers for contract work		**2,840**	–
Trade receivables	*15*	**122,008**	101,490
Other receivables, prepayments and deposits	*13*	**53,558**	54,828
Prepaid lease payments		**133**	129
Held-for-trading investments		**2,018**	2,566
Structured deposits	*16*	**–**	41,169
Pledged bank deposits		**27,057**	46,243
Bank balances and cash		**262,607**	235,653
		555,538	554,189

	NOTES	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Current liabilities			
Advances from customers		**48,109**	49,042
Amounts due to customers for contract work		**–**	165
Trade payables	*17*	**36,857**	45,563
Other payables and accruals		**128,701**	122,775
Amount due to an associate		**22,132**	21,611
Tax liabilities		**22,758**	17,957
Secured bank borrowings – due within one year	*18*	**39,465**	45,342
		298,022	302,455
Net current assets		**257,516**	251,734
Total assets less current liabilities		**788,900**	730,390
Capital and reserves			
Share capital	*19*	**12,953**	12,953
Reserves		**412,044**	380,825
Equity attributable to owners of the Company		**424,997**	393,778
Non-controlling interests	*20*	**212,096**	176,612
Total equity		**637,093**	570,390
Non-current liability			
Secured bank borrowing – due after one year	*18*	**151,807**	160,000
		788,900	730,390

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2011

	Share capital	Share premium reserve	Capital contribution reserve	Contributed surplus reserve	Statutory reserve	Share options reserve	Exchange reserve	Special reserve	Retained earnings	Attributable to owners of the Company	Non–controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011 (audited)	12,953	36	445	245,881	6,362	41,104	31,659	(42,140)	97,478	393,778	176,612	570,390
Profit for the period	–	–	–	–	–	–	–	–	22,448	22,448	33,255	55,703
Other comprehensive income	–	–	–	–	–	–	8,730	–	–	8,730	2,270	11,000
Total comprehensive income for the period	–	–	–	–	–	–	8,730	–	22,448	31,178	35,525	66,703
Sub-total	12,953	36	445	245,881	6,362	41,104	40,389	(42,140)	119,926	424,956	212,137	637,093
Lapse of share options granted	–	–	–	–	–	(133)	–	–	133	–	–	–
Lapse of share options granted by a subsidiary	–	–	–	–	–	–	–	–	41	41	(41)	–
At 30 June 2011 (unaudited)	12,953	36	445	245,881	6,362	40,971	40,389	(42,140)	120,100	424,997	212,096	637,093
At 1 January 2010 (audited)	12,952	–	445	245,881	6,362	27,345	21,565	(46,366)	61,289	329,473	80,432	409,905
Profit for the period	–	–	–	–	–	–	–	–	37,294	37,294	26,465	63,759
Other comprehensive income	–	–	–	–	–	–	2,539	–	–	2,539	170	2,709
Total comprehensive income for the period	–	–	–	–	–	–	2,539	–	37,294	39,833	26,635	66,468
Sub-total	12,952	–	445	245,881	6,362	27,345	24,104	(46,366)	98,583	369,306	107,067	476,373
Exercise of share options of a subsidiary	–	–	–	–	–	–	–	2,261	–	2,261	1,039	3,300
Lapse of share options granted	–	–	–	–	–	(4,792)	–	–	4,792	–	–	–
Non-controlling interests arising on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	27,927	27,927
At 30 June 2010 (unaudited)	12,952	–	445	245,881	6,362	22,553	24,104	(44,105)	103,375	371,567	136,033	507,600

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**33,999**	39,023
Investing activities		
Proceeds from redemption of structured deposits	**42,161**	–
Withdrawal of pledged bank deposits	**47,357**	–
Additions in investment properties	**(28,813)**	–
Pledge of bank deposits	**(27,057)**	(42,052)
Purchase of property, plant and equipment	**(23,809)**	(87,597)
Acquisition of a subsidiary	**–**	(63,149)
Proceeds from redemption of a convertible loan receivable	**–**	110,107
Other investing cash flows	**3,004**	1,071
Net cash from (used in) investing activities	**12,843**	(81,620)
Financing activities		
Repayment of bank loans	**(44,025)**	–
New bank loans raised	**25,007**	144,300
Proceeds from exercise of share options of a subsidiary	**–**	3,300
Other financing cash flows	**(5,280)**	(1,978)
Net cash (used in) from financing activities	**(24,298)**	145,622
Net increase in cash and cash equivalents	**22,544**	103,025
Cash and cash equivalents at beginning of the period	**235,653**	166,604
Effect of foreign exchange rate changes	**4,410**	1,617
Cash and cash equivalents at end of the period, comprising bank balances and cash	**262,607**	271,246

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the periods ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current period, the Group has applied, for the first time, a number of new or revised Standards and Interpretation ("new HKFRSs") issued by the HKICPA, which are effective for the financial year beginning on 1 January 2011. The application of these new HKFRSs in the current interim period had no material effect on the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied the following new or revised Standards, and Amendments to Standard that have been issued but are not yet effective. The following new or revised Standards, and Amendments to Standard have been issued after the date the consolidated financial statements for the year ended 31 December 2010 have authorised for issuance and are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of the Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]

[1] Effective for annual periods beginning on or after 1 July 2012

[2] Effective for annual periods beginning on or after 1 January 2013

The five new or revised Standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised Standards are applied early at the same time. The Directors anticipate that these new or revised Standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013. The Company is currently evaluating the impact of the adoption of these five new or revised Standards on its financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments:

Six months ended 30 June 2011

	Computer graphic ("CG") creation and production *HK$'000* (unaudited)	Digital content distribution and exhibitions *HK$'000* (unaudited)	Deployment of digital cinema network *HK$'000* (unaudited)	CG training courses *HK$'000* (unaudited)	Cultural park *HK$'000* (unaudited)	Consolidated *HK$'000* (unaudited)
Revenue	**21,337**	**292,185**	**5,833**	**7,936**	**396**	**327,687**
Segment result	**(16,180)**	**96,902**	**1,676**	**147**	**(3,212)**	**79,333**
Unallocated income						**473**
Unallocated expenses						**(8,040)**
Share of loss of an associate						**(81)**
Profit before tax						**71,685**

Six months ended 30 June 2010

	CG creation and production *HK$'000* (unaudited)	Digital content distribution and exhibitions *HK$'000* (unaudited)	Deployment of digital cinema network *HK$'000* (unaudited)	CG training courses *HK$'000* (unaudited)	Cultural park *HK$'000* (unaudited)	Consolidated *HK$'000* (unaudited)
Revenue	9,798	230,733	3,032	10,486	233	254,282
Segment result	(2,660)	76,058	505	2,360	(997)	75,266
Unallocated income						1,707
Unallocated expenses						(5,891)
Share of loss of an associate						(19)
Profit before tax						71,063

All of the segment revenue reported above is from external customers.

4. REVENUE

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

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Sales of goods	**164,618**	118,038	**284,585**	218,850
Revenue from contracts for CG creation and production	**12,789**	2,752	**17,289**	9,798
Revenue from provision of assembly and integration services	**4,413**	800	**5,833**	3,032
Rental income	**4,252**	380	**4,444**	563
Training fee	**3,865**	5,441	**7,936**	10,486
Technical service income	**3,487**	3,702	**7,600**	11,553
	193,424	131,113	**327,687**	254,282

5. OTHER INCOME AND GAINS

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Interest income	**1,840**	891	**2,676**	2,505
Government grants	**1,022**	1,781	**1,321**	3,574
Changes in fair value of held-for-trading investments	**–**	–	**–**	270
Others	**390**	110	**982**	111
	3,252	2,782	**4,979**	6,460

6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Interest on:				
Bank borrowing not wholly repayable within five years	**2,608**	–	**5,100**	–
Bank borrowings wholly repayable within five years	**75**	1,450	**180**	1,978
Total borrowing costs	**2,683**	1,450	**5,280**	1,978
Less: amount capitalised in the cost of qualifying assets	**–**	(1,080)	**–**	(1,608)
	2,683	370	**5,280**	370

7. OTHER EXPENSES AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Research and development costs	**2,261**	2,448	**4,408**	4,155
Changes in fair value of held-for-trading investments	**22**	455	**548**	–
	2,283	2,903	**4,956**	4,155

8. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Current tax:				
Hong Kong	**5,081**	–	**7,781**	–
PRC Enterprise Income Tax ("EIT")	**4,376**	3,786	**8,038**	7,304
Other jurisdictions	**125**	–	**163**	–
	9,582	3,786	**15,982**	7,304

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the periods.

For the periods ended 30 June 2011, the relevant tax rates for the Group's subsidiaries in the People's Republic of China (the "PRC", for the purpose of this announcement, does not include Hong Kong, Macau and Taiwan) ranged from 24% to 25% (Periods ended 30 June 2010: 22% to 25%). Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary is exempted from PRC EIT for two years starting from its first profit making year which was in 2007, followed by a 50% reduction for the next three years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. PROFIT FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period has been arrived at after charging:				
Allowance for doubtful debts	**500**	–	**500**	–
Amortisation of prepaid lease payments	**33**	32	**65**	63
Depreciation of property, plant and equipment	**7,333**	3,112	**13,408**	6,361
Less: amounts included in contract costs	**(1,287)**	(791)	**(1,998)**	(1,561)
amounts included in productions work in progress	**(2)**	–	**(68)**	–
	6,044	2,321	**11,342**	4,800
Loss on disposal of property, plant and equipment	**–**	1,353	**–**	1,353
Provision for other deposits *(Note)*	**1,105**	–	**1,105**	–
Staff costs	**23,149**	20,073	**47,338**	35,482

Note: The amount represents provision for irrecoverable deposits paid to a supplier which supplied products of unsatisfactory quality.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Earnings				
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**18,988**	12,753	**22,448**	37,294
Effect of dilutive potential ordinary shares:				
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	**(461)**	–	**(758)**	–
Earnings for the purpose of diluted earnings per share	**18,527**	12,753	**21,690**	37,294
	'000	*'000*	***'000***	*'000*
Number of shares				
Number of ordinary shares for the purposes of basic and diluted earnings per share	**1,295,256**	1,295,246	**1,295,256**	1,295,246

The computation of diluted earnings per share for the periods ended 30 June 2011 does not assume the exercise of the share options of the Company as the exercise prices of the share options were higher than the average market price of the shares of the Company for the periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Carrying values
	HK$'000
At 1 January 2011 (audited)	312,578
Exchange realignment	7,165
Additions *(Note)*	23,809
Depreciation for the period	(13,408)
Disposal	(328)
At 30 June 2011 (unaudited)	329,816

Note: The additions mainly included purchase of a property in the United States of approximately HK$12,817,000 for the Group's office premise and warehouse there.

12. INVESTMENT PROPERTIES

	Properties interest under construction
	HK$'000
COST	
At 1 January 2011 (audited)	95,395
Exchange realignment	2,299
Additions	28,813
At 30 June 2011 (unaudited)	126,507

13. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2011	31 December 2010
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Non-current:		
Other receivables related to the VPF Arrangement	**45,878**	42,024
Current:		
Deposits	**33,936**	40,995
Other receivables related to the VPF Arrangement	**12,444**	6,298
Others	**7,178**	7,535
	53,558	54,828

14. INVENTORIES

	30 June 2011 *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
Raw materials, net of allowance of approximately HK$2,502,000 (31 December 2010: HK$2,502,000)	**34,025**	28,604
Finished goods, net of allowance of approximately HK$8,152,000 (31 December 2010: HK$8,152,000)	**36,555**	30,266
	70,580	58,870

15. TRADE RECEIVABLES

The following is an aged analysis at the end of the reporting period of trade receivables, net of allowance for doubtful debts presented based on the invoice date:

	30 June 2011 *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
Within three months	**71,306**	62,270
Three to six months	**38,005**	29,382
Over six months	**12,697**	9,838
	122,008	101,490

The Group allows different credit periods to its customers, ranging from 30 days to 120 days, depending on the type of products sold or services provided.

16. STRUCTURED DEPOSITS

During the six months ended 30 June 2011, the Group redeems the structured deposits.

17. TRADE PAYABLES

The following is an aged analysis at the end of the reporting period of trade payables presented based on the invoice date:

	30 June 2011 *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
Within three months	**33,663**	45,027
Three to six months	**1,600**	536
Over six months	**1,594**	–
	36,857	45,563

The credit periods on purchases of goods are ranged from 30 days to 90 days.

18. SECURED BANK BORROWINGS

During the six months ended 30 June 2011, the Group obtains new bank loans of approximately HK$25,007,000 and repays bank loans of approximately HK$44,025,000 in accordance with the repayment terms. The new bank loans raised are denominated in Renminbi, secured by the pledge of bank deposits, carry at fixed interest rates from 2.4% to 2.5% per annum and are repayable within twelve months after the end of the reporting period.

19. SHARE CAPITAL

Share capital as at 30 June 2011 amounts to approximately HK$12,953,000. There are no movements in the share capital of the Company in either the current or the prior interim reporting periods.

20. NON-CONTROLLING INTERESTS

	Share options reserve of a subsidiary *HK$'000*	**Share of other net assets of subsidiaries** *HK$'000*	**Total** *HK$'000*
At 1 January 2011 (audited)	8,936	167,676	176,612
Share of profit for the period	–	33,255	33,255
Share of other comprehensive income for the period	–	2,270	2,270
Lapse of share options granted by a subsidiary	(41)	–	(41)
At 30 June 2011 (unaudited)	8,895	203,201	212,096

21. CAPITAL COMMITMENTS

	30 June 2011 *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of additions in investment properties	**90,309**	64,182

22. LITIGATION

The Company received an original complaint in April 2010, a first amended complaint in July 2010 and a second amended complaint in March 2011 for damages and injunctive relief, and demand for jury trial (the "Proceeding") filed with the District Court, Central District of California Western Division of the United States (the "Court") by X6D Limited, X6D USA Inc. and XpanD, Inc. (collectively, the "X6D") against, among others, the Company and its non-wholly owned subsidiaries namely GDC Technology Limited ("GDC Technology"), GDC Technology China Limited, GDC Technology (USA), LLC and GDC Technology of America LLC (collectively, the "Defendants") for copyright infringement, trademark and trade dress infringement, patent infringement, misappropriation of trade secrets and statutory unfair competition in relation to the 3D glasses sold by the Defendants. Sale of 3D glasses is not a core business of the Group.

The Group filed its answer and counterclaims in November 2010 and amended answers and counterclaims in January 2011 and April 2011 denying X6D's allegations, asserting various affirmative defenses and asserting eight counterclaims against X6D generally that, among others, X6D did not own any valid intellectual property rights that cover the Defendants' 3D glasses and X6D wrongfully and intentionally interfered with the Defendants' prospective business relations with their potential customers. In January 2011 and May 2011, X6D filed its answers to the counterclaims denying the Defendants' allegations and asserting various affirmative defenses.

A Joint Rule 26 Statement was submitted to the Court in January 2011 and the Court issued a scheduling order in February 2011 that the motion for summary judgment shall be filed by no later than 30 November 2011. From February 2011 onwards, the parties have served and exchanged a number of interrogatories, responses and supplemental responses as part of the ongoing discovery.

In May 2011, X6D filed with the United States Patent & Trademark Office re-issue requested for all three of its design patents. In June 2011, the Defendants filed a motion to stay the litigation on the ground that the patent claims were in flux due to the re-issue applications, and that the same facts applied to the validity of all of X6D's intellectual property and trade secrets claims, and all claims involved common products. X6D filed its opposition to the motion in July 2011. The Court has not ruled on the motion up to the date of this announcement.

No trial date has been set up to the date of this announcement.

Based on the opinion from the legal advisor, the Directors consider that the Group does not infringe X6D's design patents and copyright in the 3D glasses. However, the eventual outcome of these matters cannot be reliably predicted at the current stage. Further, the Group currently have not seen any evidence to support X6D's claim for misappropriation of trade secrets and therefore, currently places a comparatively low likelihood that X6D can establish liability against the Defendants on this claim. Accordingly, no provision for any potential liability has been made in the condensed consolidated financial statements.

23. EVENT AFTER THE END OF THE REPORTING PERIOD

(1) On 8 July 2011, the Company, GDC Holdings Limited ("GDC Holdings"), a wholly-owned subsidiary of the Company, and CAG Digital Investment Holdings Limited (the "Purchaser"), an affiliate of The Carlyle Group, entered into a disposal agreement, pursuant to which the Purchaser has conditionally agreed to purchase 80% of the issued share capital of GDC Technology and 100% of the issued share capital of GDC Digital Cinema Network Limited ("GDC DCN"), a wholly owned subsidiary of GDC Holdings, and GDC Holdings is required to procure 80% of the issued share capital of GDC Technology to be sold (the "Disposal"). The aggregate consideration payable by the Purchaser for the acquisition of 80% of issued share capital of GDC Technology and 100% of the issued share capital of GDC DCN is, subjected to adjustment, approximately HK$591.9 million.

At the date of this announcement, GDC Technology is a 58% owned subsidiary of GDC Holdings, and GDC Holdings is required to sell approximately 38% to 58% shareholding in GDC Technology. The net proceeds from the Disposal to be received by the Group will range from approximately HK$277.6 million to HK$419.0 million. Upon completion of the Disposal, GDC Technology and GDC DCN and their respective subsidiaries will cease to be subsidiaries of the Company and their results will no longer be consolidated into the consolidated financial statements of the Company and accordingly, the Group will cease to engage in the businesses of digital content distribution and exhibitions and deployment of digital cinema network.

Details of the Disposal are set out in the announcement of the Company dated 11 July 2011.

(2) The Company entered into a subscription agreement on 12 July 2011 with certain Directors, pursuant to which those Directors agreed to subscribe for an aggregate of 223,000,000 new shares of the Company at a subscription price of HK$0.35 per share. The Company and a placing agent entered into a placing agreement on 12 July 2011 and a supplemental agreement on 13 July 2011 pursuant to which the Company agreed to place, through the placing agent, 220,000,000 new shares of the Company to place on a best effort basis at a placing price of HK$0.35 per share. The aggregate net proceeds from the subscription and the placing are expected to be approximately HK$153.0 million. Details of the placing and subscription are set out in the announcements of the Company dated 12 and 13 July 2011, and the circular of the Company dated 2 August 2011.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (Six months ended 30 June 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

Revenue for the six months ended 30 June 2011 was HK$327,687,000, when comparing with that of HK$254,282,000 for the corresponding period in the year 2010, representing an increase of 29%. The increase was mainly attributable to increases in sales of goods and revenue from contracts for CG creation and production by HK$65,735,000 and HK$7,491,000, respectively. Attributable to the continuous roll-out of digital cinemas worldwide, more digital cinema equipment was sold during the period. Besides, the Group worked on more CG production projects during the period as a result of the recovery of the international animation production industry.

Cost of sales for the six months ended 30 June 2011 amounted to HK$176,484,000, when comparing with that of HK$143,744,000 for the corresponding period in the year 2010, representing an increase of 23%. The increase was mainly due to an increase in costs of goods sold and more CG production costs incurred.

The Group recorded a gross profit of HK$151,203,000 for the six months ended 30 June 2011, when comparing with that of HK$110,538,000 for the corresponding period in the year 2010, representing an increase of 37%. The Group's gross profit margin for the six months ended 30 June 2011 amounted to 46% (Six months ended 30 June 2010: 43%). The improvement in the gross profit margin was mainly attributable to changes in product sales mix.

Other income and gains for the six months ended 30 June 2011 amounted to HK$4,979,000 (Six months ended 30 June 2010: HK$6,460,000), representing a decrease of 23%. The decrease was mainly due to a decrease in government grants by HK$2,253,000.

Distribution costs and selling expenses for the six months ended 30 June 2011 amounted to HK$15,499,000 (Six months ended 30 June 2010: HK$6,092,000), representing an increase of 154%. The increase was mainly due to more exhibition, travelling and promotion costs spent on exploring new markets, an increase in sales commission which was in line with an increase in sales of goods, and more marketing expenses spent on 珠影文化產業園 (Pearl River Film Cultural Park*) (the "Pearl River Film Cultural Park").

Administrative expenses for the six months ended 30 June 2011 amounted to HK$58,681,000 (Six months ended 30 June 2010: HK$35,299,000), representing an increase of 66%. The increase was mainly due to higher staff costs and office operating expenses as a result of the growth in the scale of operations of the Group. Besides, mainly due to completion of the Group's construction of the headquarters building in Shenzhen in late 2010, depreciation of property, plant and equipment for the period increased by HK$6,542,000 to HK$11,342,000.

Finance costs for the six months ended 30 June 2011 amounted to HK$5,280,000 (Six months ended 30 June 2010: HK$370,000), which mainly included interest on bank borrowing for the headquarters building in Shenzhen that was not eligible for capitalisation upon completion of the construction.

Overall, the Group recorded a profit of HK$22,448,000 for the six months ended 30 June 2011 attributable to owners of the Company, when comparing with that of HK$37,294,000 for the corresponding period in the year 2010, representing a decrease of 40%.

Basic and diluted earnings per share for the six months ended 30 June 2011 amounted to HK1.73 cents (Six months ended 30 June 2010: HK2.88 cents) and HK1.67 cents (Six months ended 30 June 2010: HK2.88 cents), respectively, representing a respective decrease of 40% and 42% when comparing with that for the corresponding period in the year 2010.

Business Review And Outlook

Digital content distribution and exhibitions & Deployment of digital cinema network

As a result of an increase in orders of digital cinema equipment from customers in the PRC and worldwide during the six months ended 30 June 2011, segment revenue and result from digital content distribution and exhibitions division reported an increment of 27% and 27% to HK$292,185,000 and HK$96,902,000, respectively, for the period when comparing with that for the corresponding period in the year 2010.

Since more exhibitors participated in the virtual print fee ("VPF") arrangements and more digital cinema networks were deployed, segment revenue and result from deployment of digital cinema network division increased by 92% and 232% to HK$5,833,000 and HK$1,676,000, respectively, for the six months ended 30 June 2011 when comparing with that for the corresponding period in the year 2010.

On 8 July 2011, the Group signed a disposal agreement to dispose most of its interest in digital content distribution and exhibitions division and its entire interest in deployment of digital cinema network division for a net consideration ranging from HK$277.6 million to HK$419.0 million. Upon completion of the disposal, the Group will no longer engage in the businesses of these divisions.

The Group considers that the disposal represents a good opportunity for the Group to realise its investment in these divisions at a fair and reasonable price and enables the Group to further strengthen its current cash flows and liquidity positions to finance the construction works of the redevelopment of various phases of the Pearl River Film Cultural Park once the detailed construction plan is approved.

CG creation and production

For the six months ended 30 June 2011, segment revenue from CG creation and production division increased significantly by 118% to HK$21,337,000 while segment loss from the division also increased by 508% to HK$16,180,000 when comparing with that for the corresponding period in the year 2010. The increase in segment loss was mainly attributable to the depreciation and finance costs in relation to the headquarters building in Shenzhen incurred during the period amounting to HK$6,793,000 and HK$5,100,000, respectively.

The Group currently has four CG production projects from Australia, Europe and North America in progress and there are several projects under negotiation as well. The Group would not only continue to delivery high quality products to the customers, but also enhance its financial control and production efficiency to improve the performance. Recently, the Group employs Mr. Anthony laMolinara, who was awarded the Academy Award for Achievement in Visual Effects in Oscar 2004, as its chief artistic director. With his experience, knowledge and expertise, the Group can improve its creative and production quality, and enhance its international recognition.

The Group's diversification in intellectual property ("IP") investment achieves a preliminary success. At present, two 3D-animated films are currently in the post-production stage and one of them will be released during the year 2011; one CG-animated television series are nearly completed and the Group appoints its agent for the international distribution; and one traditional-animated television series are also completed and being distributed both domestically and internationally. In view of the growing 3D film and television market worldwide and the animation industry in the PRC, the Group continues to invest in its own IP assets and plans for expansion of related businesses.

CG training

For the six months ended 30 June 2011, due to greater competition in the market and office relocation, segment revenue and result from CG training division decreased by 24% and 94% to HK$7,936,000 and HK$147,000, respectively, when comparing with that for the corresponding period in the year 2010.

In order to improve the performance of the division, the Group not only upgraded the existing training courses with the latest CG technology, but also organised more professional training programmes in other areas in response to market demands. Besides, the Group continued to co-operate with prominent colleges in the PRC to organise "Skills and Qualifications" training programme for their students in achieving "One Course, Multiple Certifications", and to hone their practical skills to prepare for immediate employment after graduation.

In addition to the Group's training centres in Shanghai, Shenzhen, Wuxi, Chongqing and Guangzhou, the Group plans to set up a new training centre in northern China to provide a more comprehensives network coverage in the PRC, with a view to stimulating and promoting its training business to those areas with developed animation industry and further expanding its training network.

Cultural park

During the six months ended 30 June 2011, the construction work for the redevelopment of Phase I of the Pearl River Film Cultural Park has commenced with an aggregate consideration of approximately HK$92.0 million. The Group has prepared a detailed construction plan with several renowned architects, consultants and building management companies for the redevelopment of other phases of the Pearl River Film Cultural Park which has been submitted to the relevant PRC authorities for approval. The redeveloped Pearl River Film Cultural Park includes, subject to the approval, a commercial complex comprising cinema, shops and restaurants, and a new multi-storey office tower.

Given the prime location of the Pearl River Film Cultural Park, the urban redevelopment policy in Guangzhou, the rapid economic growth and development of the retail and recreation market in the PRC, the Group is of the view that the whole redevelopment of the Pearl River Film Cultural Park provides a good opportunity for the Group to tap into the rapid media entertainment and property development business in the PRC.

Liquidity and Financial Resources

As at 30 June 2011, the Group had bank balances and cash of HK$262.6 million (31 December 2010: HK$235.7 million), pledged bank deposits of HK$27.1 million (31 December 2010: HK$46.2 million) and no structured deposits (31 December 2010: HK$41.2 million), which were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The net decrease of HK$33.4 million was the result of cash used in additions in investment properties of HK$28.8 million, purchase of property, plant and equipment of HK$23.8 million and net repayment of bank loans of HK$19.0 million, netted off with net cash from operating activities of HK$34.0 million.

As at 30 June 2011, the Group's borrowings amounted to HK$191.3 million, of which HK$39.5 million were repayable within twelve months from 30 June 2011 and HK$151.8 million were repayable after twelve months from 30 June 2011. The borrowings were mainly denominated in Renminbi and bore interest at market rates.

The Group's gearing ratio (calculated as borrowings divided by equity attributable to owners of the Company) as at 30 June 2011 was 45% (31 December 2010: 52%). As at 30 June 2011, the Group had a current ratio of 1.9 (31 December 2010: 1.8) based on current assets of HK$555.5 million and current liabilities of HK$298.0 million. The improvement in the gearing ratio was mainly attributable to net repayment of bank loans and profit earned during the period.

Capital Structure

The equity attributable to owners of the Company amounted to HK$425.0 million as at 30 June 2011 (31 December 2010: HK$393.8 million). The increase was mainly attributable to profit for the six months ended 30 June 2011 attributable to owners of the Company of HK$22.4 million and exchange differences arising on translation of foreign operations attributable to owners of the Company of HK$8.7 million.

Material Acquisitions, Disposals and Significant Investment

The Group did not have any material acquisitions, disposals and significant investment during the six months ended 30 June 2011.

Charge on Assets

As at 30 June 2011, the Group had the following charges on assets:

(i) The Group's building, plant and machinery and prepaid lease payments with an aggregate carrying value of HK$267.4 million were pledged to a bank to secure for a bank borrowing with an outstanding amount of HK$166.3 million and unutilised borrowing facilities of HK$42.2 million; and

(ii) The Group pledged deposits amounting to HK$27.1 million to a bank to secure short-term bank borrowings of HK$25.0 million.

Foreign Exchange Exposure

Currently, the Group earns revenue mainly in United States dollars and Renminbi, and incurs costs mainly in United States dollars, Renminbi and Hong Kong dollars. The Directors believe that the Group does not have significant foreign exchange exposure, and thus do not implement any foreign currency hedging policy at the moment. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign currency exposures. As at 30 June 2011, the Group had no significant exposure under foreign exchange.

Contingent Liabilities

Saved as disclosed in note 22 about litigation proceedings, the Group had no significant contingent liabilities as at 30 June 2011.

Employees

As at 30 June 2011, the Group employed 680 (31 December 2010: 627) full time employees (excluding those employees under the payroll of an associate of the Group). The Group remunerates its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits, such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group.

During the six months ended 30 June 2011, neither the Company nor its subsidiaries had paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six months ended 30 June 2011, none of the Directors had an interest in a business (other than those businesses where the Director were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2011.

COMPLIANCE WITH CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all of the Directors confirmed that they have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the six months ended 30 June 2011.

AUDIT COMMITTEE

The Group's interim results for the six months ended 30 June 2011 were unaudited. However, the Company has engaged the Company's auditor, Messrs. Deloitte Touche Tohmatsu to assist the Audit Committee to review the 2011 unaudited interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 5 August 2011 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2011.

APPRECIATION

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

By Order of the Board
Li Shaofeng
Chairman

Hong Kong, 12 August 2011

As at the date of this announcement, the Board comprises Mr. Li Shaofeng (Chairman and Executive Director), Mr. Chen Zheng (Managing Director and Executive Director), Mr. Jin Guo Ping (Deputy Managing Director and Executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Kwong Che Keung, Gordon (Independent non-executive Director), Mr. Hui Hung, Stephen (Independent non-executive Director) and Prof. Japhet Sebastian Law (Independent non-executive Director).

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