



EAST ASIA SECURITIES COMPANY LIMITED

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HONG KONG RESEARCH

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GEM-Board Listing - Research

環球數碼創意控股有限公司

Global Digital Creations Holdings Limited [Stock Code: 8271]

Sponsor : Asia Investment Capital Limited
Joint Financial Advisers : CM-CCS Securities Limited Kingsway Capital Limited
Lead Manager & Bookrunner : CM-CCS Securities Limited

Sector: entertainment

Business: creation, production and distribution of digital contents

Total share offer: <u>66,300,000</u> shares (8.5% of the enlarged share capital) Placement: 58,300,000 new shares (88%) Public offer: 8,000,000 new shares (12%)	<u>Business of Global Digital Creations</u> The Group's business activities represent an integration of the entire value chain in the digital-content business, encompassing creation, production (own projects as well as projects contracted from 3 rd parties) and distribution of digital contents, particularly CG (computer graphics) imaging. To compete in the high-value end, the Group has established a training facility to produce a continuous supply of skilled manpower for CG production and has also created a production house which has substantially completed a full-length CG 3D science fiction/fantasy animated movie in high definition namely, <i>Thru the Moebius Strip</i> . The Group's production facilities are located in Shenzhen and are capable of storyboarding, production design and props development, computer animation as well as special effects.
Price: HK\$1.00 per share Market cap. : HK\$780 million Adjusted net tangible asset per share: HK\$11.8 Staffing: 245	
Public offer opens: 24 th July 2003 Public offer closes: 28 th July 2003 Receiving bank: Hang Seng Bank Limited Share registrar: Standard Registrars Limited Listing date: 4 th August 2003	

Major Shareholders after Listing

Anthony NEOH - the chairman and a non-executive director of the Group	16.0%
Raymond NEOH - an executive director of the Group and the brother of Anthony Neoh	27.5%
A family trust whose beneficiaries include Madam CHAN Tan Ching Fen and her family	7.1%
SW Kingsway – parent company of one of the joint financial advisers	5.4%
	<u>56.0%</u>

*** Anthony NEOH is the current Chief Advisor of China Securities Regulatory Commission (CSRC)**

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$53.3 million.

	HK\$ million
To strengthen the Group's management team and international marketing team	4.9
To develop the digital cinema distribution network in the PRC and Asia	27.7
To carry out R&D of digital cinema technologies in Hong Kong	12.6
To carry out production maintenance, particularly for overheads and staff payment	2.0
To carry out production maintenance, particularly for co-financing in relation to the Group's CG projects on hand other than <i>Thru the Moebius Strip</i>	3.6
To serve as the Group's general working capital	2.5

Financial Highlights

	1 month ended 31 st January		Year ended 31 st December	
	2003 HK\$'000	2002 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Training fees	228	199	2,052	2,240
Box office receipts from distribution of digital motion pictures	-	-	151	-
Rental income from equipment leasing	6	-	55	-
Franchise fee from digital cinema for use of equipment	<u>6</u>	<u>-</u>	<u>48</u>	<u>-</u>
	<u>240</u>	<u>199</u>	<u>2,306</u>	<u>2,240</u>
Operating profit / (loss)	(1,444)	(991)	(15,633)	(10,235)
Net profit / (loss)	<u>(1,890)</u>	<u>(1,012)</u>	<u>(17,429)</u>	<u>(10,317)</u>
Earnings / (Loss) per share	<u>(HK\$4.73)</u>	<u>(HK\$2.53)</u>	<u>(HK\$43.57)</u>	<u>(HK\$25.79)</u>

Strengths

- ✓ The global computer-animation industry grew with a CAGR of approximately 7.1% from 1999 to 2001 and reached US\$26.8 billion and the market is expected to reach possibly US\$36 billion by 2004. Among the top 100 grossing movies of all time at worldwide box office, there are 7 full-length computer-graphic (CG) movies, which is a respectable number. The Group may well reap huge long-term benefits if it can manage to apply its vision well.
- ✓ In addition, the CG market share of the North American region looks set to be replaced by the Asian region in the longer term, as the offshore producers with comparatively-lower cost in Asia are becoming more experienced and proficient.



Weaknesses

- × The Group is a relatively-new player in the CG creation/production industry with only 3 years of experience. Up until now, the Group has not generated any revenue from CG creation/production, which it claims to be the part of its business with the most prospect. Besides, CG creation/production industry is in fact dominated by a few big US production houses with numerous Asian contenders. We therefore see it is quite difficult for the Group to break the deadlock.
- × Future revenue from the Group's CG creation/production segment will rely on how well-received *Thru the Moebius Strip* is. The animated movie is expected to be released in the 1st quarter of 2004. Should the box office go the other way, the negative impact to the Group's business could be significant, especially when a substantial amount of revenue is expected to be generated from the movie's merchandises and other associated products.
- × Like most other players in the entertainment business, the Group has intellectual-property concern. In fact, the Group's rights to *Thru the Moebius Strip* have not been registered in any jurisdictions. Any piracy copies of the movie may seriously undermine the receipts of sales from the authentic copies as well as the merchandising products and related games.
- × The Group was established just a couple of years ago and is still making its way into the bigger stage. Losses were incurred for the year ended 31st December 2002 and the period so far this year. It is likely that the Group will continue to register losses for quite some time.

Recommendation: Unattractive