Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, certain of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions.

RISKS RELATING TO THE GROUP

Uncertainty of public acceptance of the Group's CG creation and production

The Group is a relatively new player in the CG creation and production industry with three years' experience of establishment. During the Track Record Period, the Group did not generate any revenue from CG creation and production. As at the Latest Practicable Date, no revenue has yet been generated from CG creation and production. Although the Directors expect that the Group will start to generate revenue from this segment after the release of *Thru the Moebius Strip*, which is expected to be in the first quarter of 2004, public acceptance of the quality of the Group's CG creation and production will remain uncertain until the release of this film. The Directors also expect that a substantial amount of revenue will be generated from the merchandises and other associated products derived from *Thru the Moebius Strip* (which include sale of videos, DVDs, games and television broadcasting), the intellectual property rights of which are entirely owned by the Group. **If *Thru the Moebius Strip* is not well received by consumers and/or CG industry players or in the worst case that no revenue can be generated from *Thru the Moebius Strip*, the revenue to be generated from merchandises would likely be detrimentally affected and may even be none. Whilst the Group's management and production personnel have experience in the CG production of television programs, they have no experience in the CG production of long-format feature films.** Although experienced supervisors are being deployed in *Thru the Moebius Strip*, there is no assurance that the quality of its CG creation and production will commensurate with the currently expected standard of internationally distributed films. There is also no assurance that the revenue from the box office receipts and sales of merchandising products of this film will be satisfactory, as the Group has not entered into any pre-sale contracts as at the Latest Practicable Date. In such event, the Group may incur significant loss.

Further, if *Thru the Moebius Strip* is not well received by consumers and/or CG industry players, the Group may have difficulties in securing new CG production contracts in future. Should the Group fail to secure additional CG production contracts in future or should the distributors refuse to take delivery for quality or other reasons, the Group's financial performance will also be adversely affected. Although the Directors expect that the Group will, in the near future, enter into other co-financed contracts that involve CG creation and production of main television programs, in which the Group's management and production team already have experience, there is no assurance that the necessary co-financing will be forthcoming or that the projects will be commercially successful.

Future prospect of the Group is dependent on *Thru the Moebius Strip*

As at the Latest Practicable Date, the Group was engaged in only one project, namely *Thru the Moebius Strip*. The Directors expect that a substantial amount of revenue will be generated from *Thru the Moebius Strip* and its related merchandises which would include sale of videos, DVDs, games and television broadcasting. **Investors should note that future performance of the Group (which include the performance of *Thru the Moebius Strip*) may not be reflected in past financial performance of the Group and the receipt of such revenue by the Group is still uncertain.**

The Group has invested an aggregate amount of approximately HK$46 million (representing approximately 13 times of the Group's consolidated net tangible asset value as at 31st January, 2003) for the production of *Thru the Moebius Strip* as at 31st January, 2003 and approximately HK$60 million as at the Latest Practicable Date. The Directors expect a further amount of approximately HK$7.8 million will be required to complete the production of *Thru the Moebius Strip* which include the incorporation of sound effects and voices for characters using talents sourced from the US. In addition, the Group has reserved an amount of approximately HK$10 million for contingency purposes. Given the substantial size of cost incurred and to be incurred for *Thru the Moebius Strip*, the financial performance of the Group would be highly dependent on the successful launch and acceptance of this project.

Change in activity mix of the Group in the future

During the Track Record Period, most of the revenue of the Group were generated from the provision of CG training courses which were of a recurring nature. The Directors expect that a substantial amount of revenue will be generated from *Thru the Moebius Strip* and its related merchandises which would include sale of videos, DVDs, games and television broadcasting. *Thru the Moebius Strip* is funded by the Group's own investment. **The risks taken up by the Group in this regard are higher than when the Group is undertaking subcontracted CG projects or other CG productions involving collaborative arrangements where fundings are wholly or partly provided by subcontractors and/or partners.** In addition, the Group will undertake own projects and subcontract CG projects or other CG productions in the future. **Investors should note that the level of risk in the future will be different from the risk level during the Track Record Period.**

Failure to complete self-financed and co-financed projects within budget

The Directors expect that a significant portion of the Group's revenue will be generated from CG creation and production. **While the Group is actively engaged in discussions with third parties on new projects, the Group is at present engaged in only one project, namely, *Thru the Moebius Strip*. In addition, the future prospect and financial performance of the Group in the near future are dependent on the public acceptance of this single project on hand. If the revenue generated from *Thru the Moebius Strip* and its related merchandises are not satisfactory, the Group may not be able to generate sufficient revenue for funding other projects of the Group in the future.** As production and completion of motion pictures are subject to numerous uncertainty, including financial requirement and personnel availability, the risk exposure of the project is unpredictable. Given (1) the propensity for increase in compensation rates of experienced people required to work on various CG projects, (2) the possibility that additional personnel may be required to work on various CG projects, and (3) the possible need for more costly and advanced equipment, the production budget for CG projects may continue to increase and the Directors believe that it is not uncommon for production expenditure to exceed production budgets. Due to production exigencies which are often difficult to predict, there is no assurance that the Group's existing and future CG projects will be completed within budget to maintain a profit margin for each project. The Group has been and is expected to continue to be required, to expand its employee base by approximately 10% per annum as the circumstances render necessary, increase capital expenditures and procure additional resources and facilities in order to accomplish the scheduled completion of films and other CG creation and production. Should the Group fail to complete the project on hand or fail to complete the job within budget, the Group's financial condition will be materially and adversely affected.

Unproven concept of digital cinema

The Directors consider that the concept of digital cinema is new and unproven. The Group has no experience in the digital content distribution and exhibition businesses and only commenced to record revenue from this segment in April 2002, and the amount recorded only amounted to

approximately HK$254,000. So far the Group had incurred research and development costs in an aggregate amount of approximately HK$3.4 million up to 31st December, 2002 and approximately HK$4.6 million up to the Latest Practicable Date.

Since the Group is still in the progress of exploring the prospect of digital cinemas in the Chinese market, the consumers' reaction remains uncertain. Such risk will also spread to the sourcing, digitalization and organization of film and alternative content for the digital cinema distribution channel. Although there is currently no digital cinema in some of the Group's target markets excluding the PRC and Hong Kong to the best of the Directors' awareness, there is no assurance that there will either be a demand for digital cinemas in the target markets of the Group or a demand from cinema operators for the relevant digital cinema equipment from the Group in the future. Furthermore, under the legally binding memorandum of understanding between the Group and CFG, further discussions will be required as to implementational details, such as locations of cinemas and amount of mutual investments for particular locations, and there is no assurance that these discussions will be successful across the board in relation to all relevant locations. In the event that there is no demand for the digital cinema equipment from the Group in its target markets, the Group would not receive revenue from the sale/franchise of the same (together with its associated share of box office/advertising receipts as the case may be) and the operation and financial performance of the Group may be adversely affected.

In view of the Group's limited operating history, the Group's prospects must be considered in light of the risks, uncertainties and difficulties frequently encountered by companies in the rapidly evolving markets like the one in which the Group operates. The Group may not be successful in addressing or minimizing these risks and uncertainties. Failure to do so could have a material adverse effect on the business, operations and financial condition of the Group.

Limited operating history and history of operating loss

The Group commenced its business operation in January 2000. The limited operating history of the Group makes evaluating its business relatively difficult. During each of the two years ended 31st December, 2002 and the one month ended 31st January, 2003, the Group incurred net losses of approximately HK$10,317,000, HK$17,429,000 and HK$1,890,000 respectively. **The Group's future operating results may be subject to fluctuations owing to a variety of factors, including competition and success in implementing its business strategies, expansion plans and ability to secure new CG projects and execute them successfully within efficient time frame. If the Group is unable to generate sufficient revenue to meet its operating expenditure, such operations will have to be funded by proceeds from the New Issue and other financial activities and there is no assurance that the Group will be able to generate profits, cashflows and dividend in the future.**

Limited free float of Shares in the market within one year from the Listing Date

Upon completion of the New Issue and Capitalization Issue but before the exercise of the Sotas Option, the public float of the Shares will be approximately 27.6% of the total issued share capital of the Company, whilst the remaining balance of approximately 72.4% of the total issued share capital of the Company will be held by the Initial Management Shareholders (approximately 67.0%) and the Significant Shareholders (approximately 5.4%). However, given that the Shares held by certain public Shareholders, namely, Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited and the Pre-Listing Investors (i.e. Overseas China Town and CITIC International Assets Management Limited) are subject to moratorium periods of 12 months (in aggregate holding approximately 16.4%), there will be only 87,004,064 Shares, representing approximately 11.2% of the total issued share capital of the Company, which can be freely transferable in the market within one year from the Listing Date (assuming no issue of new Shares during the same period). Potential investors should note the effect of limited free float of Shares in the market on the realization of Shares in the market. **Furthermore, there can be no guarantee that an active trading market for the Shares will develop (or if it does develop, there can be no guarantee that the market will be sustained) following the completion of the New Issue and the Capitalization Issue.**

Reliance on financial assistance provided by certain Shareholders and their related parties

During the Track Record Period, the Group's operations have been mostly financed by loans from certain Shareholders (namely Anthony Neoh, Sotas Limited, Richard Yingneng Yin and Raymond Neoh) and their related parties (namely William Ka Chung Lam and Kingsway Finance). As at 31st May, 2003, the aggregate amount of loans owed to such parties by the Group amounted to approximately HK$25.9 million, which were applied to support the Group's operation (although total sums of approximately HK$10.6 million, HK$2.6 million and HK$12.7 million of the said loans (i) was repaid by the Group on the Latest Practicable Date; (ii) is scheduled to be repaid by the Group before the Listing Date, and (iii) is scheduled to be repaid until the later of 12 months from 31st 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 this prospectus respectively).

Besides, each of Anthony Neoh and Raymond Neoh, both being Directors and Initial Management Shareholders, has given a number of personal guarantees in respect of certain loans amounting to an aggregated sum of HK$34.1 million made to the Group. The lenders of such loans are the Bank of China, Shenzhen Commercial Bank, E-Talent and Kingsway Finance as at 31st May, 2003. The loans from the Bank of China and Shenzhen Commercial Bank are to be repaid according to their respective terms of their respective loan agreements on 30th October, 2004 and 21st March, 2005 respectively; whilst the loans from E-Talent and Kingsway Finance of HK$5.8 million and HK$2 million respectively were repaid on the Latest Practicable Date and 26th June, 2003 respectively.

The aforesaid repayment and scheduled repayment of the loans from certain Shareholders, their related parties, E-Talent and Kingsway Finance were and will be repaid out of the cash proceeds from the Pre-Listing Investors, which repayment would have a significant impact on working capital and cashflow of the Group. Given such significant impact, the Directors have confirmed that the proceeds from the New Issue will not be used to repay the outstanding indebtedness of the Group and that the Group will repay the same from internal resources.

As the Group's aforesaid reliance on financial assistance provided by certain Shareholders and their related parties will terminate upon the Listing Date, there can be no assurance that the Group would generate sufficient cash flow from its operations in the near future, which operations will have to be funded by the proceeds from the New Issue and other sources of financing. In the event that the Group is unable to obtain adequate financing, its business plan, the existing operations, performance and prospects of the Group may be adversely affected.

Potential competition with Forward Strategic and DCDC

Forward Strategic, a Shareholder, has an indirect shareholding interest of approximately 21.4% in DCDC. The remaining shareholding interests of DCDC are held by independent third parties not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. DCDC is principally engaged in CG production, in particular 3D animation in Hong Kong. Currently, to the best knowledge of the Directors, there is no direct competition between the Group and DCDC. However, as DCDC continues to secure further CG projects, it is possible that DCDC will engage in projects which may be in competition with those of the Group. Save as disclosed above, to the best of the Directors' knowledge, DCDC has not secured any CG projects which compete or may compete with those of the Group. In the event that any competition between the Group and DCDC occurs, the profitability and business prospects of the Group may be adversely affected.

Failure to protect the Group's intellectual property rights and proprietary rights

The Group owns all the copyrights and other related rights of *Thru the Moebius Strip*. However, the Group's rights to *Thru the Moebius Strip* have not been registered in any jurisdictions. The Directors expect that the copyrights of other films produced by or co-produced by it in the future will be governed by the respective service contracts made between the Group, the film directors and two other CG professionals involved. The Directors consider that it is vital to the Group that the intellectual property rights of the films in which it has invested are well protected. However, there is no guarantee that the Group will be able to protect its intellectual property rights and in particular to cope with piracy problems successfully. The spread of piracy versions of videos, DVDs, VCDs and tapes of *Thru the Moebius Strip* may seriously undermine the receipts of sales from the authentic version of videos, DVDs, VCDs and tapes of *Thru the Moebius Strip* and even to the film's merchandising products and related games (including on-line games). Such sales receipts are expected to be a major source of revenue of the *Thru the Moebius Strip* project and other future projects. In the event the Group fails to protect its intellectual property rights effectively, the Group's profitability will be adversely affected.

Besides, the Group has applied for registration of certain service marks and trademarks in Hong Kong. Details of registration are set out in the paragraph headed "Intellectual property" under the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus. There is no guarantee that those applications will not be opposed by third party or parties which claim(s) to have the proprietary rights to use those service marks or trademarks.

The Group currently does not have any registered patent, and does not intend to apply for any patent registration, for any of its solutions developed from the digital content distribution and exhibitions business. In applying for the patent registration, the Group will be required to disclose the origin source code and system configuration design of its solutions. The Directors consider that once the information is disclosed, it can easily be duplicated by the Group's competitors or potential competitors. Therefore, the Directors are of the view that patent registration is not in the interest of the Group. Notwithstanding the Group's solutions were developed by the chief technology officer of the Group, there are contractual arrangements between the chief technology officer of the Group and the Group for protecting the Group's rights and interest in its solutions. However, in the absence of any patent registration, it may be difficult for the Group to establish a claim against any unauthorised use or unauthorised disclosure of the Group's proprietary rights, which may result in exploitation of the Group's resources and may adversely affect the Group's operations.

In addition, although the Group has proprietary rights of its computer animation files, computer software and hardware and database of thousands of digital models, sets, textures and surface appearances created by the production team, it has not applied for, nor does it intend to apply for, the registration of any intellectual property rights in relation thereto. Therefore, should the Group's proprietary rights in these assets be infringed, it may be difficult for the Group to establish any claim against such infringement.

Risk of infringement claims by third parties

As at the Latest Practicable Date, the Group did not have any on-going litigation regarding infringement of proprietary rights. However, there can be no assurance that there will be no litigation from third parties against the Group alleging infringement of their proprietary rights by the Group. In the event of a successful claim of infringement by any of such third parties and/or the Group's failure or inability to develop non-infringing technology or to obtain a licence relating to the infringed or similar technology on a timely basis, there is a risk that the Group's business would be adversely affected. In addition, even if the Group is able to obtain a licence relating to the infringed or similar technology from such third parties, the licence fees payable by the Group could be substantial, which may accordingly adversely affect the Group's business operations and financial performance.

Reliance on the ticketing system of customers

Under the Group's revenue model, the Group is/will be entitled to share revenues for box office receipts from showing films and alternative programs in digital cinemas. The Group's revenue entitlement is/will be recognized upon submission of cinema's operations statements. Currently, the Group is entitled to share box office receipts with the Grand Theatre and Shanghai Paradise pursuant to the respective agreements with each of them. However, the relevant box office receipts from which the Group shall be entitled to revenue sharing are subject to passive reporting by the Group's customers based on their own ticketing system. Although the Group adopts the policies to conduct thorough review of the ticketing system of its potential customers (which includes site visit and testing of ticketing/reporting system, and to make it a pre-requisite for its customers to install an acceptable computer ticketing system, the Group has to rely on the ongoing reliability of ticketing and reporting system operated by their third party customers. In so doing, the Group has been making regular efforts to monitor its customers' ticketing system in terms of (i) the controls over inputs; (ii) daily reconciliation of cash receipts and computer box office receipts record; (iii) paper audit trail; and (iv) timeliness of reporting. In the event of abuse and default of the third party ticketing and reporting system, the revenue and the profitability of the Group would be adversely affected.

Risks associated with expansion into overseas markets

In order to capitalise on business opportunities overseas, the Group intends to establish regional presence in selected countries including US and India. The Group already has an operation in Singapore for the sale of the Group's digital cinema products. Inherently, the Group faces a number of business risks in conducting operations overseas, and such risks include (1) differences in legal and regulatory requirements; (2) difficulties in seeking supporting services; (3) differences in tax regimes; (4) fluctuations in currency exchange rates; (5) burdens in complying with foreign laws and regulations; (6) administrative difficulties in staffing and managing foreign operations; and (7) changes in political and economic conditions. As a foreign-controlled entity, the Group may be subject to more onerous regulatory or compliance requirements than domestic entities offering similar products or services. The pursuit of regional expansion plans may shift the Group's business focus and put a strain on management and human resources. There is no assurance that the capital and other resources expended by the Group for its overseas market expansion plan may be recouped, nor that the Group will be able to gain a foothold in the selected overseas markets.

Legal and other regulations

As the Group's business is focused in the high technology sector, where the applicable regulatory regime is not sufficiently mature when compared with other business areas, there is no assurance that any future changes to the applicable regulatory regime will not adversely affect the Group. Given the Group's digital content distribution and exhibition business is targeted to extend to further global markets, there is no assurance that the Group will be able to comply with all the legal and regulatory requirements as would be required in the targeted market. The regulatory environment of the Group's target markets is also unpredictable.

Risks associated with inability to obtain third party technology licenses

The Group has been endeavouring to acquire technology through the establishment of strategic relationships with technology partners globally. There is no assurance that such technology will be forthcoming to it through licensing on commercially viable terms. The Group's inability to obtain technology licenses may delay or compromise its ability to introduce new services, which may have an adverse effect on the future performance of the business.

Inability to successfully expand through acquisitions or alliances

As part of the Group's growth strategy, the Group expects to acquire companies, distributorships and assets that the Directors believe should enhance the Group's income growth, operations and profitability. Such acquisitions made by the Group may need funding from its internally generated cash flow or potentially diluting issues of equity securities, each of which could materially and adversely affect the business of the Group. Such acquisitions could also involve the following risks:

- the difficulties in the integration and assimilation of the operations, technologies, products and personnel of the acquired businesses;
- the diversion of management's attention from other business concerns;
- the availability of favourable financing for future acquisitions;
- the potential loss of key employees of any acquired business; and
- the lack of familiarity with Asian market conditions and business practices.

The Group will need to be able to successfully integrate the acquired businesses, and its failure to do so could have a material adverse impact on the business, results of operations and financial condition of the Group.

Failure of industry partners to provide adequate support

The Directors believe that the success of *Thru the Moebius Strip* will, to a significant extent, depend on the reputable members of the industry that the Group is cooperating with, namely Jean Moebius Giraud, a French artist who has contributed designs for *Tron*, *Willow*, *Masters of the Universe*, *Alien*, *The Abyss*, *The Fifth Element*[1] and David Kirschner, a Hollywood animation producer. GDC Entertainment Limited has entered into agreements with each of Jean Moebius Giraud and David Kirschner with respect to *Thru the Moebius Strip*, a summary of the principal terms of which are set out below.

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[1] *Tron* is a Hollywood movie and its story line is an adventure about a hacker who is split into molecules and is transported into a computer. *Willow* is a Hollywood movie, the story line of which is about Willow, a small farmer/apprentice magician, who meets a great swordsman and together they journey through a war-torn land of magic and monsters, to save a baby princess from death at the hands of an evil queen. *Masters of the Universe* is a Hollywood movie and its story line is a fantasy action-adventure between a group of freedom fighters, led by the He-man and the evil Skeletor who wants to take over the planet. *Alien* is a Hollywood movie which is about an adventure of the crew of a mining ship which was investigating an SOS, lands on a distant planet. The crew discovers some strange creatures and investigates. *The Abyss* is a Hollywood movie which is about a civilian diving team which is enlisted to search for a lost nuclear submarine and faced danger while encountering an alien aquatic species. *The Fifth Element* is a Hollywood movie which is about a beautiful young woman who holds the secret that can defeat an evil alien force.

Service agreement with Jean Moebius Giraud

Date	:	15th January, 2000
Period	:	From 15th January, 2000 until the earlier of completion of *Thru the Moebius Strip* or until termination of Jean Moebius Giraud's engagement by way of mutual agreement in writing between the parties
Contents	:	Engagement of Jean Moebius Giraud as the conceptual artist of *Thru the Moebius Strip*
Terms	:	Jean Moebius Giraud will during the term of the agreement: — serve as the conceptual artist of *Thru the Moebius Strip* — furnish conceptual designs, art works, services etc. to GDC Entertainment Limited for the production of *Thru the Moebius Strip* — provide advice and assistance in the production and direction of *Thru the Moebius Strip* GDC Entertainment Limited will during the term of the agreement: — pay Jean Moebius Giraud service fee and cost of relocation of Jean Moebius Giraud and his family to the United States
Other provisions	:	Jean Moebius Giraud assigns the whole of Jean Moebius Giraud's property, right, title and interest in and to *Thru the Moebius Strip* and the entire copyright and all other rights in connection with *Thru the Moebius Strip* to GDC Entertainment Limited in and to all products of his services.

Assignment of intellectual property rights from Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong to Moebius Strip Limited

Date	:	15th January, 2000
Assignors	:	Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong
Assignee	:	Moebius Strip Limited
Terms	:	the Assignors, who are the absolute, legal and beneficial co-owners of the copyright and all other rights, consents and permissions throughout the world in and to *Thru the Moebius Strip* ("Film"), assigned to the Assignee the Rights (as set out hereunder) at the Consideration (as set out hereunder)
Rights	:	all the Assignors' copyright (whether vested contingent, present or future to or in the Film) and all other rights, consents and permissions throughout the world in and to the Film and all necessary rights in and to the screenplay and all other literary material on which the Film is based and all other literary, artistic, musical and dramatic material created for as a consequence of production and all wherever situated
Consideration	:	US$300,000.00 (equivalent to HK$2,340,000)

Subsequent matters	:	On the same date of 15th January, 2000 (and as supplemented by a supplemental agreement dated 2nd May, 2003), Moebius Strip Limited assigned all the Rights and its other rights, title and interest under the captioned Assignment to GDC Entertainment Limited (formerly known as GDC Enterprises Limited) for (i) US$60,000 (which has been paid); (ii) deferred "net profit" from the Group's production of the Film up to a maximum of US$240,000, should the Group's film production of the Film generates a "net profit" ("Deferment"); and (iii) 3% of the "net profit" of the Group's production of the Film in excess of US$240,000 from time to time ("Royalty"). For clarity, in the event that the Film fails to generate a positive "net profit", neither Deferment nor Royalty shall be payable.

Letter agreement in respect of the assignment of rights to the Film to GDC Entertainment Limited (formerly known as GDC Enterprises Limited)

Date	:	1st September, 2000
Assignor	:	Jean Moebius Giraud
Assignee	:	GDC Entertainment Limited (formerly known as GDC Enterprises Limited)
Assignment	:	assignment of all of Jean Moebius Giraud's right, title and interest in and to, inter alia, the original idea, underlying literary and artistic material of any kind or nature upon which the Film is based and; all exclusive exploitation rights of whatever nature in respect of the Film in all languages
Consideration	:	for good and valuable consideration, the receipt of which was acknowledged by Jean Moebius Giraud

Service agreement with David Kirschner

Date	:	13th February, 2002
Period	:	From 13th February, 2002 and extend throughout the production and delivery of *Thru the Moebius Strip* to GDC Entertainment Limited
Contents	:	Engagement of David Kirschner's supervisory production and consulting services as producer of *Thru the Moebius Strip*
Terms	:	David Kirschner will during the term of the agreement: — render certain supervisory production and consulting services as producer GDC Entertainment Limited will during the term of the agreement (i.e. from 13th February, 2002 and extend throughout the production and delivery of *Thru the Moebius Strip* to GDC Entertainment Limited): — pay David Kirschner service fee and cost of relocation — give credit (in the form of name display at the end of the movie) to David Kirschner as producer of *Thru the Moebius Strip*

Other provisions	:	David Kirschner assigns the whole of David Kirschner's rights in and to all results and proceeds of his services under this service agreement to GDC Entertainment Limited

The Directors consider that the abovementioned industry partners are vital in maintaining the high quality of the film, and their names have the function of enhancing the profile of the project. Should these industry partners cease to provide services or withdraw their support to the Group and the Group fails to find comparable replacement, the popularity of *Thru the Moebius Strip*, which is the Group's only film project in the pipeline, may be adversely affected.

Failure to successfully implement the Group's business plans and strategies and adequate system of controls to manage future growth

The Directors have prepared the business plans and strategies after due enquiry by reference to, among other matters, the Group's own market position and competitive advantages, the expected future prospects of the CG production and digital cinema industry, the envisioned market potential of products under development and other factors considered relevant. The Directors formulated such business plans and strategies based on a number of assumptions, details of which are set out in the section headed "Statement of business objectives" of this prospectus. There is no assurance that these business plans and strategies can be successfully implemented in the future. Should there be any material change in the Group's operating environment which results in its failure to implement any of the business plans and the Directors are not able to formulate new development strategies to secure its future growth, the Group's prospect may be adversely affected.

On the other hand, the Group has been expanding its operations rapidly in recent years, both in terms of size and scope. This growth may place a significant demand on the Group's management systems and resources. The Directors believe the Group's ability to maintain an adequate and effective system of controls and staff management to keep pace with its growth is a critical success factor for survival. Should the Group fail to implement the system of controls and staff management needed to support growth, the business performance of the Group may be adversely affected.

Failure in future fund raising

The Directors do not rule out the possibility of further fund raising, in equity and/or debt market, in the future for the purpose of financing the Group's business development of CG creation and production, digital content distribution and exhibition and CG training courses. The Directors cannot provide any assurance that the Group will be successful in obtaining sufficient future financing, or even if such financing is available, that the Group will obtain it on favourable or acceptable terms. If the Group fails to obtain sufficient financing on commercially acceptable terms in the future, it may have a material adverse effect on the Group's business, operating results and financial condition.

Enhancement of operational, financial and management information system

To continue to accommodate growth, the Group will be required to implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvement and maintenance of the Group's accounting system, other internal management systems and backup systems. In achieving such system enhancements, the Group's management team has to take up increased duties and responsibilities. Additionally, the Group will also need to continue to hire, train, motivate and manage its employees to provide adequate enhancement of the Group's system. Any failure to accomplish one or more of these activities on a timely and cost-effective basis can have a material adverse effect on the Group's business, financial condition and operation.

Reliance on key executives and personnel

The Group's business has been administrated and will continue to be administrated by certain key personnel including Raymond Neoh (as chief executive officer of the Company) and Dr. Chong Man Nang (as chief technology officer of the Company). These key personnel, in particular, Raymond Neoh and Dr. Chong Man Nang have paved the way for setting and implementing the Group's business objectives in exploring the CG production and digital cinema industry respectively. Although Raymond Neoh had entered into three years fixed term service contract with the Group whilst Dr. Chong Man Nang had entered into a service contract with the Group, their departure from the Group will detrimentally affect the Group's operation.

The Group's success continues to depend, to a significant extent, on the Group's ability to identify, attract, hire, train and retain qualified professionals, creative, technical and managerial personnel. As such, the Group's inability to hire, train and retain such professionals will also have a material adverse effect on the Group's operation.

Reliance on high technology and computer systems for timely and successful development of feature films and other CG products

One of the Group's principal assets is a large base of computer animation files. The Group will suffer if the files are destroyed and/or the files cannot be located due to ineffective asset management. The Directors cannot assure that the Group will not experience such difficulties.

As the Group is dependent on, amongst other things, a large base of computer software and numerous computer hardware for the development and production of the Group's animated feature films and other CG products, any error or defect in the software, failure in the hardware or a failure of the backup facilities can result in significant delay in the production work and can result in potentially significant delays in the completion dates of the Group's feature films and other CG products. Significant delays in production can have a material adverse effect on the Group's business, operating results and/or financial condition.

Reliance on technological advancement to be successful

The Directors expect that the Group will be required to enhance the Group's technologies and to develop new technologies in order to be successful in the CG and digital cinema industry. There is no assurance that the Group will be successful in enhancing the existing technologies or in developing and utilizing new technologies, or that its competitors will not develop technology that is equivalent or superior to the Group's technologies or that makes the Group's technologies obsolete. If the Group is unable to develop enhancements to the existing technologies or new technologies as required, its business, operating results or financial condition can be materially adversely affected.

Policy of re-deploying retained profits in financing capital commitments

The Group's policy for the longer term is to utilise retained profits to reduce its debts used for financing acquisition of fixed assets, with a view to reducing interest costs and increasing the Group's performance through earnings per Share. Therefore, even if the Group's future operations result in significant revenues and profits, there can be no assurance that any dividend will be paid in the foreseeable future.

RISKS RELATING TO THE INDUSTRY

Competition in the CG market

The market for CG industry is new, rapidly evolving and intensely competitive. According to the Roncarelli Report 2001, there are over 8,000 facilities worldwide that are producing computer animation with sophisticated equipment and systems. Since the Group mainly concentrates on long-format CG production and targets markets in North America, Japan and Europe, the Directors consider that at present competition mainly comes from small and medium sized production houses in these regions where the CG technology is sophisticated. There is no assurance that the Group will be able to gain or maintain a competitive edge over these competitors.

Earnings in the entertainment industry are highly volatile

The entertainment industry is a realm of constant changes in respect of interests, preferences, moods, thoughts, inclinations and dispositions. Socio-economic transformation flowing from globalisation and financial developments have rendered the assessment of public interests and tastes in the movie, television broadcasting and general entertainment production difficult. Besides, the duration and sustainability of today's television viewers and movie goers are highly unpredictable and hard to assess. Viewers and audiences may become bored after they have seen too many productions with digital content and they may turn to other forms of entertainment for diversity and fresh sensations and experience. In order to maintain the interest of the viewing public in CG productions, increasing costs have to be put in to ensure the highest quality production in terms of virtual images and persistent attraction to the viewers on the screen. This will increase the costs of production and may become a growing financial burden to producers and the production houses. Another influential factor over the persistence of consumption habits and trends is the overall economic conditions in respect of whether and how much the average person affords to spend on entertainment. In times of economic downturn, it is obvious that people tend to be more careful with what and how they spend their money. There is no assurance that the interests of the viewers and the audience in general in CG productions at present will not shift and continue indefinitely in the future and as a result, earnings in the entertainment industry are highly volatile.

RISKS RELATING TO REGULATIONS, ECONOMICS AND POLITICS

Economic and legal risks associated with conducting business in the PRC

During the Track Record Period, the Group's turnover was entirely derived from the PRC. In addition, the Group's principal production operations are situated in the PRC. The PRC economy has experienced significant growth in the past decade, but such growth has been uneven across geographic and economic sectors. There can be no assurance that such growth will continue or that any possible slowdown in the future will not have a negative effect on the Group's business. Also, the regulatory environment in the PRC's film industry is subject to changes. Whilst the general direction is one of liberalisation in conjunction with the PRC's accession into the WTO, it is impossible to forecast accurately how future changes in regulation will affect the Group's business plans in the PRC.

The National People's Congress, or its Standing Committee, is responsible for the passing of new laws of the PRC and any amendments thereto. The PRC legal system is based on written statutes. Court judgments are therefore not legally binding, although judges in subsequent cases will often make reference to them in forming their judgment. The interpretation of the PRC laws may be subject to policy changes reflecting the domestic, political and social developments at the time.

Since 1979, to facilitate foreign investments and to meet the demand of investors, the PRC government has been developing and modifying its economic and legal systems by promulgating a series of economic related laws and regulations. As the legal system of the PRC keeps evolving, the promulgation of new legislation, the changes made to existing laws and regulations and the precedence of national laws over local regulations may have negative impact on foreign investors. Although throughout the past decades, the legal system of the PRC has in general been evolving in favor of foreign investors, there is no assurance that the future changes in, and modifications of, the laws and regulations in the PRC will be advantageous to foreign investors as in the past. Uncertainty therefore exists as to the effect of any changes in, and development of, any laws and regulations in the PRC. There is also no assurance that any changes in the interpretation of the PRC laws and regulations in the future will not have any adverse effect on the business operations and prospect of the Group.

Difficulties in expanding the Group's business in other regions due to regulatory, political and economic uncertainties

The Group targets the global markets in relation to its CG creation and production business and in terms of its digital content distribution and exhibition business, it is initially targeting the PRC and Asia Pacific markets, extending to the global markets at a later stage. In extending its business coverage to the global markets, the Group may be subject to various risks associated with conducting its business in these markets, regulatory issues towards the provision of digital content distribution and exhibition solutions and cultural differences which will give rise to various degree of acceptance of the Group's CG creation and production products. In view of these risks, the Group may have to revise its business plans from time to time which may have an adverse impact on the Group's business operation and development prospect.

Volatility of worldwide economic climate

Since mid-1997, many countries in the Asia Pacific region have experienced a significant economic downturn and a decline in the value of their currencies. As a result of the regional economic crisis, governments across the region have imposed strict economic policies, including raising interest rates and, in some cases, restricting the remittance of foreign currencies, to defend their weakening currencies. These policies have caused an enduring adverse effect on the region's economy. Although recently the region's economy has begun to stabilize and is showing signs of recovery, the estimated growth of the gross domestic product and investors' confidence for the region are still lower than that before the economic crisis.

Currency exchange rate

It is anticipated that a substantial portion of the Group's revenues will be denominated in US$ whereas its expenses and liabilities will be denominated in US$, HK$ and RMB. In future, the Group may also expand into other Asia Pacific regions, such as Singapore and accordingly may generate revenues and incur expenses in other currencies. With effect from 1st January, 1994, the PRC government implemented a unified floating exchange rate system based on supply and demand in the market. Under such system, the People's Bank of China ("PBOC") publishes a daily exchange rate for RMB based on the inter-bank exchange rate of RMB of the preceding day. Foreign currency designated banks use the exchange rate published by the PBOC as a basis and enter into foreign exchange transactions at exchange rates within the floating range specified by the PBOC. On the other hand, although the Hong Kong dollar is currently pegged against the US dollar, there is no assurance that the linkage of the Hong Kong dollar to the US dollar will not be altered or unpegged in the future. As a result, the Group will be subject to exchange rate fluctuation with respect to other currencies.

RISKS RELATING TO THE NEW ISSUE

Potential dilution effect of the Sotas Option

On 5th June, 2003, the Group has granted to Sotas Limited, an investment holding company beneficially owned by a family trust established by Madam Chan Tan Ching Fen and is an Initial Management Shareholder, the Sotas Option, which entitles Sotas Limited to purchase 504,870 Shares (representing 8,331,615 Shares and 1.1% of the total issued Shares immediately after the completion of the New Issue and Capitalization Issue) from the Company within 36 months from the Listing Date at an exercise price of US$600,000 (equivalent to HK$4,680,000) for the entire Sotas Option. The Shares issued under the Sotas Option are subject to a moratorium of 12 months from the Listing Date. The cost per Share under the Sotas Option is approximately HK$0.56 representing approximately 44% discount to the Issue Price. Should the Sotas Option be exercised in full, there will be a dilution effect of approximately 1% on the shareholding of the Shareholders.

Dilution of Shareholders' interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance its expansion or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata and/or pari passu basis to existing Shareholders, the percentage ownership of the Shareholders may be diluted and their existing securities may have rights, preferences and privileges inferior to those of the new Shares.