

HISTORY AND DEVELOPMENT

Prior to the restructuring of GDC on 31st March, 2000, (i) both GDC China Limited and GDC Technology Limited were wholly owned by Financial Outreach Limited and (ii) GDC Entertainment Limited (formerly known as GDC Enterprises Limited) was owned as to 48.71% by Upflow Holdings Limited, as to 42.74% by Kingsway Technology Investments Limited and as to 8.55% by William Ka Chung Lam.

GDC was incorporated in the BVI on 29th December, 1999. On 11th January, 2000, Richard Yingneng Yin, William Ka Chung Lam and Raymond Neoh (who is the 100% ultimate shareholder of Upflow Holdings Limited) were appointed as directors of GDC and Anthony Neoh was appointed to join the GDC's board on 31st March, 2000.

On 31st March, 2000, 21,000,000 shares of US\$1.00 each ("GDC Shares") were issued to the following shareholders:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	36.714%
Anthony Neoh	4,500,000	21.428%
Christopher Paul Neoh	375,000	1.786%
William Ka Chung Lam	1,800,000	8.571%
Richard Yingneng Yin	300,000	1.429%
Kingsway Technology Investments Limited	1,500,000	7.143%
Financial Outreach Limited	600,000	2.857%
Ajitkumar Chandubhai Patel	375,000	1.786%
Sudden Win Holdings Limited	<u>3,840,000</u>	<u>18.286%</u>
Total	<u><u>21,000,000</u></u>	<u><u>100.000%</u></u>

On 10th May, 2000, Sotas Limited subscribed for 1,500,000 GDC Shares and the ultimate beneficial owners of Sotas Limited did not at that time, nominate any of their representatives to the board of directors of GDC. Following the said subscription of GDC Shares by Sotas Limited, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	34.266%
Anthony Neoh	4,500,000	20.000%
Christopher Paul Neoh	375,000	1.667%
William Ka Chung Lam	1,800,000	8.000%
Richard Yingneng Yin	300,000	1.333%
Kingsway Technology Investments Limited	1,500,000	6.667%
Financial Outreach Limited	600,000	2.667%
Ajitkumar Chandubhai Patel	375,000	1.667%
Sudden Win Holdings Limited	3,840,000	17.066%
Sotas Limited	<u>1,500,000</u>	<u>6.667%</u>
Total	<u><u>22,500,000</u></u>	<u><u>100.000%</u></u>

HISTORY AND DEVELOPMENT

On 17th June, 2000, Chong Man Nang was granted 300,000 GDC Shares by GDC at nil consideration as a sign-up bonus under the engagement with GDC upon his joining GDC. At that time, Chong Man Nang was not appointed to the board of directors of GDC. Following the said grant of GDC Shares to Chong Man Nang, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	33.815%
Anthony Neoh	4,500,000	19.736%
Christopher Paul Neoh	375,000	1.645%
William Ka Chung Lam	1,800,000	7.895%
Richard Yingneng Yin	300,000	1.316%
Kingsway Technology Investments Limited	1,500,000	6.579%
Financial Outreach Limited	600,000	2.632%
Ajitkumar Chandubhai Patel	375,000	1.645%
Sudden Win Holdings Limited	3,840,000	16.842%
Sotas Limited	1,500,000	6.579%
Chong Man Nang	<u>300,000</u>	<u>1.316%</u>
Total	<u><u>22,800,000</u></u>	<u><u>100.000%</u></u>

On 21st August, 2000, Sotas Limited subscribed for an additional 1,500,000 GDC Shares, upon which Sotas Limited also nominated Chang Ka Ki George to be appointed as one of GDC's directors. Chang Ka Ki George was appointed to the board of GDC on 21st August, 2000. Following the additional subscription of GDC Shares by Sotas Limited, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.728%
Anthony Neoh	4,500,000	18.519%
Christopher Paul Neoh	375,000	1.543%
William Ka Chung Lam	1,800,000	7.407%
Richard Yingneng Yin	300,000	1.235%
Kingsway Technology Investments Limited	1,500,000	6.173%
Financial Outreach Limited	600,000	2.469%
Ajitkumar Chandubhai Patel	375,000	1.543%
Sudden Win Holdings Limited	3,840,000	15.802%
Sotas Limited	3,000,000	12.346%
Chong Man Nang	<u>300,000</u>	<u>1.235%</u>
Total	<u><u>24,300,000</u></u>	<u><u>100.000%</u></u>

On 25th August, 2000, Choi Chiu Man Kay, Wendy (who was nominated by Sudden Win Holdings Limited) was appointed as one of the GDC's directors.

HISTORY AND DEVELOPMENT

Following the resignation of Choi Chiu Man Kay, Wendy (who was nominated by Sudden Win Holdings Limited) from GDC's board on 19th January, 2001, Sudden Win Holdings Limited sold off its entire shareholding of 3,840,000 GDC Shares to Forward Strategic on 20th January, 2001. The ultimate beneficial owners of Forward Strategic are passive investors who did not nominate any of their representatives to the board of directors of GDC. On the same day, Chong Man Nang was appointed as a director of GDC. Following the said transfer of GDC Shares by Sudden Win Holdings Limited to Forward Strategic, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.728%
Anthony Neoh	4,500,000	18.519%
Christopher Paul Neoh	375,000	1.543%
William Ka Chung Lam	1,800,000	7.407%
Richard Yingneng Yin	300,000	1.235%
Kingsway Technology Investments Limited	1,500,000	6.173%
Financial Outreach Limited	600,000	2.469%
Ajitkumar Chandubhai Patel	375,000	1.543%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.346%
Chong Man Nang	300,000	1.235%
Forward Strategic	<u>3,840,000</u>	<u>15.802%</u>
Total	<u><u>24,300,000</u></u>	<u><u>100.000%</u></u>

On 26th April, 2001, Bright Oceans Corporation (HK) Ltd subscribed for 400,000 GDC Shares, upon which David Deng Wei, its nominee, was appointed to the board of GDC on the same day. Following the said subscription of GDC Shares by Bright Oceans Corporation (HK) Ltd, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	1,800,000	7.287%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	1,500,000	6.073%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,840,000	15.547%
Bright Oceans Corporation (HK) Ltd	<u>400,000</u>	<u>1.619%</u>
Total	<u><u>24,700,000</u></u>	<u><u>100.000%</u></u>

HISTORY AND DEVELOPMENT

On 24th July, 2001, Forward Strategic transferred 200,000 GDC Shares to Future United Investment Limited. The ultimate beneficial owner of Future United Investment Limited is a passive investor who did not nominate any of his representatives to the board of directors of GDC. Following the said transfer of GDC Shares by Forward Strategic to Future United Investment Limited, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	1,800,000	7.287%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	1,500,000	6.073%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,640,000	14.737%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Future United Investments Limited	200,000	0.810%
Total	<u>24,700,000</u>	<u>100.000%</u>

On 31st January, 2002, Richard Yingneng Yin and William Ka Chung Lam both resigned from the board of GDC.

On 21st August, 2002, William Ka Chung Lam transferred 1,300,000 GDC Shares to Perfect Brilliant Limited and Kingsway Technology Investments Limited transferred 1,500,000 GDC Shares to Cyber Prime Developments Limited. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	500,000	2.024%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,640,000	14.737%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Future United Investments Limited	200,000	0.810%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	<u>1,300,000</u>	<u>5.263%</u>
Total	<u>24,700,000</u>	<u>100.000%</u>

HISTORY AND DEVELOPMENT

On 25th October, 2002, William Ka Chung Lam transferred 500,000 GDC Shares to SRI Group Limited and Perfect Brilliant Limited transferred respectively 100,000 and 150,000 GDC Shares to SRI Group Limited and Kanwin Corporation respectively. The ultimate beneficial owners of SRI Group Limited and Kanwin Corporation are passive investors who did not nominate any of their representatives to the board of directors of GDC. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	0	0%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,640,000	14.737%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Future United Investments Limited	200,000	0.810%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,050,000	4.251%
SRI Group Limited	600,000	2.429%
Kanwin Corporation	150,000	0.607%
Total	<u>24,700,000</u>	<u>100.000%</u>

On 2nd November, 2002, Forward Strategic transferred respectively 341,000 and 170,500 GDC Shares to Bright Oceans Corporation (HK) Ltd and Future United Investment Limited respectively. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	0	0%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,128,500	12.666%
Bright Oceans Corporation (HK) Ltd	741,000	3.000%
Future United Investments Limited	370,500	1.500%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,050,000	4.251%
SRI Group Limited	600,000	2.429%
Kanwin Corporation	150,000	0.607%
Total	<u>24,700,000</u>	<u>100.000%</u>

HISTORY AND DEVELOPMENT

Following the resignation of Chang Ka Ki George (who was nominated by Sotas Limited) from GDC's board on 19th November, 2002, Sotas Limited transferred 1,000,000 GDC Shares to Marketeer Management Limited on 20th November, 2002. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	0	0%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	2,000,000	8.097%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,128,500	12.666%
Bright Oceans Corporation (HK) Ltd	741,000	3.000%
Future United Investments Limited	370,500	1.500%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,050,000	4.251%
SRI Group Limited	600,000	2.429%
Kanwin Corporation	150,000	0.607%
Marketeer Management Limited	1,000,000	4.049%
Total	<u>24,700,000</u>	<u>100.000%</u>

Subject to the aforesaid control and management, GDC operated as an investment vehicle to manage and operate its investment in, inter alia, GDC Technology Limited (which 100% owns GDC Technology Pte. Limited), GDC Entertainment Limited and GDC China Limited (which 100% owns IDMT). The aforesaid 3 subsidiaries were, inter alia, the principal operating subsidiaries of GDC.

On 3rd October, 2002 and 14th November, 2002, GDC Holdings Limited and GDC (BVI) Limited were respectively incorporated in the BVI, whilst on 9th October, 2002, the Company was incorporated in Bermuda, to partake in the corporate reorganization GDC. Details of the said corporate reorganization are set out in both note 20 to the sub-section headed "Shareholding structure and restrictions on disposal of Shares" in the section headed "Summary" and the section headed "Corporate reorganization" in appendix V to this prospectus. The said corporate reorganization was necessary to enable the listing of the Shares on GEM.

Since 31st December, 2002, there has been no further more changes in the shareholding structure in GDC up to the Latest Practicable Date.

As at 31st March, 2000, the directors of the board of GDC were Raymond Neoh, Anthony Neoh, William Ka Chung Lam and Richard Yingneng Yin.

GDC was not included in the Group because GDC and its member companies are dormant and have no business activities (other than DCDC which is elaborated in the section headed "Competing interest" of this prospectus).

HISTORY AND DEVELOPMENT

The establishment of the Group is premised on the Directors' vision to be a leader in the CG creation and production and digital content distribution and exhibition industry in Asia Pacific. Since its establishment, the Group has developed an operating business comprising the following two inter-related components:

- (i) a cost effective CG creation and production business targeting the global market for movies, television programs, commercials and gaming; and
- (ii) a digital content distribution and exhibition business operation in the PRC and Asia Pacific (targeting initially Hong Kong, Singapore and India) via the digital distribution of movies, live events (such as education and auctions) to cinemas and other public venues.

At the conception stage, the founder saw that it was necessary to build an integrated business which exploits the entire value chain in the digital content business, encompassing creation, production (for its own projects and projects contracted to it by third parties) and distribution of digital contents, in order to meet two developing global trends of (i) strong continuing growth in demand for digital contents, particularly CG imaging; and (ii) a paradigm shift from a chemical film based medium to an electronic, digital medium in the cinema industry.

Two of the basic reasons why the high value end of digital content creation and production has so far concentrated in the United States are: (i) the general availability of skilled manpower and (ii) the existence of well managed production facilities. In the United States, many well known Schools of Fine Arts offer courses in computer animation and the University of California in Los Angeles as well as the University of Southern California offer degree courses in computer animation. There is a dearth of CG training in Asia. The Asian Region therefore has to pay premium salaries to the few who have been trained. The general lack of skilled manpower also meant that there have been few high quality productions coming out of the region. To the best knowledge of the Directors, there has so far been no full length feature CG 3D movie in high definition coming out of the Asia. The feature length animation coming out of Japan has been in 2D (hand drawn) animation with some 3D effects.

To compete in the high value end, the Group has established a training facility designed to produce a continuous supply of skilled and reasonably priced manpower and has now created a production house which has substantially completed a full length CG 3D animated movie in high definition. This positions the Group as a global player which can leverage on the lower cost human resources of the region, in particular the many graduates from the many Schools of Fine Arts in China.

The Group's self-developed digital cinema technology (all technology relating to DSRTM Digital Film Agile Encoders and DSRTM Digital Film Servers) is leading the paradigm shift away from film based distribution and uniquely positions the Group as a player in the distribution chain.

The Group commenced operations in January 2000 when GDC Entertainment Limited (formerly known as GDC Enterprises Limited) obtained all the copyrights and all other rights, titles and interests in and to a movie called *Thru the Moebius Strip* and engaged the services of various key personnel for the production thereof. Such copyrights and other rights to *Thru the Moebius Strip* were obtained through the operation of the respective service agreements signed by each of the Group's creative and production team members, an agreement between the Group and Jean Moebius Giraud dated 1st September, 2000 and an assignment dated 15th January, 2000 with Moebius Strip Limited (which was supplemented by a supplemental agreement dated 2nd May, 2003). Pursuant to the assignment, the assignment consideration consists of (i) US\$60,000; (ii) deferred "net profit" from the Group's film production of *Thru the Moebius Strip* up to a maximum of US\$240,000 should the Group's film production generates a "net profit"; and (iii) 3% of the "net profit" from the Group's film production of *Thru the Moebius Strip* in excess of US\$240,000

from time to time (“Royalty”). The “net profit” which forms a determinant, upon which the Royalty are calculated, is equivalent to all revenue which GDC Entertainment Limited derives from all rights attached to *Thru the Moebius Strip* less all expenses. The assignment imposes on GDC Entertainment Limited the obligation to keep all usual books of account for not more than 3 years and render to Moebius Strip Limited, within six months after the end of each year after completion of *Thru the Moebius Strip*, any positive financial statements relating to the preceding year with each such statement accompanied by a remittance for the Deferment and/or Royalty shown in the statement as being due to GDC Entertainment Limited. For further details of the terms of the assignment, please refer to the sub-section headed “Connected transactions” in the section headed “Business” of this prospectus.

Pursuant to the various service agreements, the key personnel engaged to kick off the pre-production of *Thru the Moebius Strip* (such as the preparation of production bible and 2D story boards) were (i) Jean Moebius Giraud as the conceptual artist (from 15th January, 2000 to 6th May, 2000); (ii) Raymond Neoh and Arnold Gene Wong as the co-executive producers (from 15th January, 2000 to completion of *Thru the Moebius Strip*); (iii) Frank Foster as the director (from 1st January, 2000 to 1st January, 2002); and (iv) James Cox as the writer of the screenplay (from 15th February, 2000 to 17th October, 2000). *Thru the Moebius Strip* is now in production. Additional well known professionals from Hollywood involved in the production as employees of the Group have since included Paul Gertz as writer (from 14th April, 2002 to 23rd June, 2002), Kelvin Lee as animation director (from 10th October, 2001 to 30th June, 2003), Bob Koch, Wayne Kennedy and Manny Wong as CG supervisors (from 5th November, 2001 to 30th June, 2003; from 10th October, 2001 to 30th September, 2002; and from 16th November, 2001 to 15th June, 2003), Glenn Chaika as director (from 26th July, 2002 to 30th April, 2004), Fred Cline as production art director (from 19th August, 2002 to 11th January, 2003), and David Smith, as director of cinematography (from 10th October, 2002 to 16th December, 2002). Pursuant to a service agreement, David Kirschner was engaged as creative consultant from 13th December, 2002 until the end of the production of *Thru the Moebius Strip* and has the right to be credited as the producer of *Thru the Moebius Strip* in the finished film.

In June 2000, Dr. Chong Man Nang was engaged by GDC to develop the technology and business of digital content distribution and exhibitions. As a result of the Group’s re-organization, Dr. Chong Man Nang’s engagement with GDC was transferred to the Group.

In August 2000, with a view to providing CG training courses in the PRC, IDMT, a wholly-owned subsidiary of GDC China Limited, entered into an agreement with Shenzhen University in the PRC, pursuant to which the parties agreed to jointly establish a 3D animation special effects design curriculum for the training and cultivation of CG experts/professionals within the Shenzhen University. Under the terms of the agreement, Shenzhen University is responsible for providing (for a rental fee payable by IDMT) the training premises, offices and dormitories conducive towards the running of the training courses, whilst IDMT is responsible for organizing the training courses and its operating costs including the provision of equipment, course materials, lectures and tutors. The term for this agreement is two years commencing from 18th August, 2000 subject to automatic renewal for another one year provided that no negotiation is initiated by either party. As the premises for the training course may also be used as the Group’s studios for its production, these premises have since been used as the Group’s studios as well.

In August 2000 the Group signed a consultancy contract with Sony Pictures Imageworks, the studio that produced *Men In Black*, *Spiderman* and *Stuart Little*. Pursuant to the consultancy contract, Sony Picture Imageworks has agreed to provide consulting services to GDC Entertainment Limited regarding the development and production of *Thru the Moebius Strip*. For further details of the terms of the consultancy contract, please refer to the sub-section headed “Industry partners” in the section headed “Business” in this prospectus.

In November 2000, the Group commenced the training of its first batch of digital artists for CG production in Shenzhen, the PRC. The training course was jointly organised with Shenzhen University, the PRC.

Since the year end of 2000, IDMT has become a large full-time dedicated CG training facility in the PRC, with 150 trainees and a full time staff of 14 and was able to allow the full-time use of one work station per trainee for 24 hours a day.

Between June 2000 and March 2001, the Group undertook the first stage of the pre-production, which includes the preparation of the sketches, drawings and 2D story board, of *Thru the Moebius Strip* in the studios of GDC in Los Angeles, the US.

In May 2001, the Group entered into a legally binding memorandum of understanding with the CFG to equip 500 screens in the PRC with digital projection and playback equipment for a period of four to five years. Under the terms of the memorandum of understanding, the arrangements as to the sharing of box office receipts and fees from cinema advertising will be determined subject to negotiation of the two parties upon the material time.

In September 2001, the Group's digital cinema solution was successfully used in a live demonstration of distributing the Columbia Pictures' *Final Fantasy: The Spirits Within* via satellite transmission to cinemas in Beijing and Shanghai, the PRC.

In November 2001, the Group commenced the production of *Thru the Moebius Strip* in Shenzhen, the PRC.

In February 2002, the Group entered into an agreement with Shanghai Paradise Corporation, whereby Shanghai Paradise Corporation provides the cinema premises and the Group provides all necessary digital projection facilities and technical support. Under the agreement, the Group is entitled to a share of the box office and screen advertising receipts and a fixed return for franchise fees for use of the equipment over a period of 10 years. Further information on this agreement is disclosed in the paragraph headed "Shanghai Paradise Corporation" of the section headed "Business" of this prospectus. In the same month, the Group entered into an agreement with a Hollywood animation producer, David Kirschner, to engage his supervisory and production and consulting services in the production of *Thru the Moebius Strip* and for script and other creative development of future projects of the Group as may be agreed from time to time.

In March 2002, the Group set up a branch office in Shanghai, the PRC, responsible for co-ordinating and facilitating the Group's digital cinema business in the PRC and recruited two key personnels namely, Mr. Wu Mencheng and Mr. Jin Da who have over 25 years of experience in the cinema and film industries, to spearhead the Group's digital content distribution and exhibition business in the PRC. Mr. Wu and Mr. Jin both have since May 2003 left the Group.

In April 2002, the grand opening of the PRC's first digital cinema theatre run by Shanghai Paradise Corporation in Shanghai took place with the premiere of the PRC's digitally released, film-originated film called *The Missing Gun* ("尋槍"). The subtitling, compression, encryption and packaging processes of *The Missing Gun* ("尋槍") were entirely handled by the Group's proprietary DSR™ Digital Film Agile Encoder. With the launch of *The Missing Gun* ("尋槍"), the Group began to earn revenue from the sharing of box office receipts. In the same month, the Group entered into a lease agreement with the Grand Theatre for the lease of digital projection facilities and technical support equipment to the latter, in consideration for a share of the box office and screen advertising receipts and a fixed rental for the equipment. The term of the lease agreement will expire when the Grand Theatre ceases to show films upon its major renovation.

HISTORY AND DEVELOPMENT

On 19th April, 2002, GDC Technology Limited entered into an agreement and a non-disclosure agreement with TI to allow GDC Technology Limited's products to interface with DLP Cinema™ projector. The licence granted by TI is non-transferable, non-assignable, non-sublicensable, royalty-free and non-exclusive. Such agreement, which stipulates no specific term, is effective until terminated upon breach of such agreement by GDC Technology Limited. In the event of breach of such agreement by GDC Technology Limited, TI may immediately terminate such agreement. No consideration is involved for the agreement.

In June 2002, the GDC Technology Limited's encoder and server were chosen for the digital exhibition of Columbia Pictures' feature film *Final Fantasy: The Spirits Within* at the 6th Shanghai International Film Festival. The digital feature was exhibited at both the Shanghai Paradise and the Grand Theatre.

In July 2002, the PRC's second digital cinema, namely the Grand Theatre, was launched with the premiere of *Star Wars: Episode II — Attack of the Clones*.

In October 2002, GDC Technology Limited's DSR™ Digital Film Encoder and Server were successfully demonstrated at both the TI's DLP Cinema Laboratory in Dallas and at the ETC — Digital Cinema Laboratory. A short documentary of *Star Wars: Episode II — Attack of the Clones* was playback on a DLP Rear Projection HDTV set during the SMPTE Seminar entitled "Star Wars: Episode II — Attack of the Clones — A Case Study in Digital Cinema".

In November 2002, the Group's digital cinema technology was selected by Shanghai Film Studios to release its movie, *Red Snow*, in digital format. The digital feature was exhibited at both the Shanghai Paradise and the Grand Theatre.

On 16th December, 2002, the Group entered into a sale and purchase agreement with Adlabs pursuant to which Adlabs has agreed to purchase from the Group (i) 400 DSR™ Digital Film Servers between January 2003 and January 2004; and (ii) 1,000 DSR™ Film Servers between February 2004 and January 2008. On the same day, the Group and Adlabs entered into another agreement pursuant to which Adlabs shall sell and the Group shall purchase 3,200 shares of Adlabs D2C Applications Pvt Ltd, a wholly-owned subsidiary of Adlabs, which is engaged in digital content distribution and exhibition of feature films in India and owns and operates cinemas in India, representing an 8% equity interest in Adlabs D2C Applications Pvt Ltd. The said sale and purchase of 3,200 shares is conditional upon, among other things, the successful listing of the Shares on GEM and the consideration thereof shall be US\$1,000,000 (which was determined with reference to the in-house assessment of business prospects of Adlabs D2C Applications Pvt Ltd.) because the Directors consider that it would better serve the Company's interest as the Group shall by listing become more flexible in terms of resources deployment. The investment of the Group in Adlabs D2C Applications Pvt Ltd is strategic in nature. The Group intends to settle the aforesaid consideration from internal resources of the Group and not from the net proceeds of the New Issue. In the case that such transaction would constitute a notifiable transaction of the Company, the Company will ensure full compliance with the relevant disclosure and/or other requirements of the GEM Listing Rules. Further announcement(s) will be made as and when necessary. In addition, the Group has reached an understanding with WAMC, Inc. representing Raggedy Entertainment Inc. for the financing, co-production and distribution of the television series *The New Adventures of Raggedy Ann & Andy* and its related merchandises. The Group is in an advanced stage of negotiation in respect of the relevant agreement and is in the process of finalising the terms of the relevant agreement.

In February, 2003, the Company entered into a co-operation agreement with Shanghai Xin Chang Ning for the provision of CG training in Shanghai, the PRC.

In March and April 2003, the Group reached a further understanding with WAMC, Inc. for the financing, co-production and distribution of the television series based on *Thru the Moebius Strip*, the feature film *The Eyes of the Dragon* and their related merchandises. The Group is in an advanced stage of negotiation in respect of the relevant agreements and is in the process of finalising the terms of the relevant agreements.

On 20th June, 2003, the Group entered into a sale and purchase agreement (“Disposal Agreement”) with Raymond Neoh pursuant to which Raymond Neoh agreed to sell one-third of the equity interest in Moebius Strip Limited to the Group at a consideration of US\$100,000. Moebius Strip Limited did not have profit or loss for the years ended 31st December, 2001 and 2002 and the net liabilities of Moebius Strip Limited as at 31st December, 2001 and 2002 were approximately HK\$16,000 and HK\$16,000 respectively. Moebius Strip Limited has no business operation other than its entitlement to the Deferment and the Royalty pursuant to the assignment agreement between Moebius Strip Limited and the Group dated 15th January, 2000. This consideration, which was arrived at after arm’s length negotiation between Raymond Neoh and the Company, is calculated at 1% of a valuation of approximately US\$10,000,000 on *Thru the Moebius Strip* (which falls between the low scenario valuation of US\$8.7 million and a medium scenario valuation of US\$18.4 million) by Grant Sherman Appraisal Limited (taking into account the revenue from the box office only). The aforesaid rate of 1% was determined on the basis of and is identical to one third of the total 3% entitlement to which Moebius Strip Limited can be entitled under the Royalty, which was determined based on commercial negotiations amongst Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong. The cash consideration of US\$100,000 shall only be settled one year after the Listing Date and is scheduled to be settled from the internal resources of the Group and not from the net proceeds of the New Issue. If and upon completion of the Disposal Agreement, the Group’s obligation to pay the Royalty would be reduced effectively from 3% to 2% of the “net profit” of *Thru the Moebius Strip*.

On 2nd July, 2003, the Group entered into a cancellation agreement with Raymond Neoh pursuant to which the Disposal Agreement was cancelled. On 2nd July, 2003, the Group was informed by Raymond Neoh that he had entered into a sale and purchase agreement dated 2nd July, 2003 pursuant to which Raymond Neoh had disposed of his entire shareholding interest (being one-third of the total issued shareholding interest) in Moebius Strip Limited to Arnold Gene Wong (who was also an existing shareholder of Moebius Strip Limited holding the then one-third of the total issued shareholding interest thereof) for a cash consideration of US\$100,000, which is equivalent to the consideration under the Disposal Agreement on or before 1st July, 2006. Prior to completion of the relevant sale and purchase agreement, Moebius Strip Limited is a company owned as to one-third by Raymond Neoh (the executive Director), as to one-third by Jean Moebius Giraud, and the remaining one-third by Arnold Gene Wong. Following completion of the relevant sale and purchase agreement, Moebius Strip Limited has become a company owned as to one-third by Jean Moebius Giraud with the remaining two-thirds owned by Arnold Gene Wong. Raymond Neoh, the executive Director, considers that the sale of his share in Moebius Strip Limited to Arnold Gene Wong is, for Mr. Wong, an incentive for better performance and at the same time a reward for his past contributions. The Directors further advised that, although approximately 70% of *Thru the Moebius Strip* had been completed, it is still not yet a finished product that can be launched in the market. Besides, a producer of a film plays an important role in the success of that film, particularly in ensuring that the film will be of a quality that is acceptable to the general public. Furthermore, Mr. Wong also has considerable experience in the film industry and has wide contact with different people in that industry. The Directors believe that these factors will be beneficial to the film in terms of its future distribution and marketing. In essence, as a result of the sale and purchase agreement, Arnold Gene Wong has become entitled to double his share of the future net profit potential of *Thru the Moebius Strip* and will then become more inclined to be more dedicated to the production of it. Given such cancellation of the Disposal Agreement, the Group remains liable to pay the full 3% of the Royalty, i.e. the Group’s entitlement to the “net profit” of *Thru the Moebius Strip* remains at 97% (before any apportionment to relevant crew of the production team of *Thru the Moebius Strip*).