

## STATEMENT OF ACTIVE BUSINESS PURSUITS

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The following is a statement of active business pursuits of the Group for each of the two years ended 31st December, 2002 and for the period from 1st January, 2003 to the Latest Practicable Date.

### For the year ended 31st December, 2001

#### *Sales and marketing*

- Began negotiations with independent third parties in relation to the CG production for television series and feature films in March
- 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 in May
- Held successfully a live demonstration of the Group's satellite transmitted digital cinema solution by distributing the Columbia Pictures' *Final Fantasy: The Spirits Within* via satellite transmission to digital cinemas in Beijing and Shanghai, the PRC in September
- Promoted *Thru the Moebius Strip*, with articles appearing in the Hollywood Reporter, Wired Magazine and many websites
- Began to set up an office which engages in the operations of digital cinemas in Shanghai, the PRC
- Attended the New York Licensing Show in New York, the US in June

#### *Training*

- Graduated first batch of 150 digital artists in June
- Began second CG training course in Shenzhen for approximately 120 students in September
- Employed four US technical and creative professionals for training in October and November
- Began to provide shorter courses
- Produced a Chinese book entitled "Digital Compositing" for the Group's CG training course in the PRC

#### *Production*

- Set up production facilities for 108 digital artists in October
- Built production network and linux-based network platform
- Conducted pre-production of *Thru the Moebius Strip* in Los Angeles, the US and the PRC
- Formed storyboard department and reinforced 2D art department in the PRC
- Recruited four experienced supervisors from the US who have been key animators and supervisors in major Hollywood box office success in October and November

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## *Research and development*

- Completed all research and development for working model of digital cinema server and encoder for end-to-end solution for digital cinema, which was successfully demonstrated in Beijing and Shanghai, the PRC in August
- Developed in-house software for rendering, lighting and special effects with the assistance of input from the Group's US supervisors and its own software developers

## *Human resources deployment*

- Recruited 111 digital artists from the first batch of graduates from the Group's CG training course in Shenzhen
- As at 31st December, 2001, the Group had a total of 169 staff, a functional analysis of which is as follows:

Management	2
CG creation and production	133
Research and development	8
Sales and marketing	1
Tutors	8
Finance and administration	17
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Total	<u>169</u>

## *Finance*

- Completed one round of fund-raising of a total of approximately US\$3 million (equivalent to approximately HK\$23,400,000)

## **For the year ended 31st December, 2002**

## *Sales and marketing*

- Attended the AFM with first show reel of *Thru the Moebius Strip* in February
- Signed up two digital cinemas (namely the Shanghai Paradise and the Grand Theatre) in February
- Participated in various trade shows to show the Group's "Digital Super Realism" (DSR™) Server and Encoder during May to December
- Digital exhibition of Columbia Pictures' feature film *Final Fantasy: The Spirits Within* at 6th Shanghai International Film Festival in both the Shanghai Paradise and the Grand Theatre in June
- Digital exhibition of 20th Century Fox Pictures' feature film *Star Wars: Episode II — Attack of the Clones* in both the Shanghai Paradise and the Grand Theatre; the Shanghai Paradise achieved the top box office in PRC for the exhibition of *Star Wars: Episode II — Attack of the Clones* in July
- Digital exhibition of Shanghai Film Studios' feature film, *Red Snow* in both the Shanghai Paradise and the Grand Theatre in November

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- Established a magazine publishing and conferencing committee within the Group for the publication of the “Asia Digital Film, CG and Games” online magazine in the website of the Group, which targeted readers include professional digital content developers, artists and distributors
- Commenced negotiations with the WAMC, Inc. for the financing, co-production and distribution of the television series namely, *The New Adventures of Raggedy Ann & Andy*, *the Panshel*, *the Flying Panda* and *The Eyes of the Dragon*, a featured film based on a novel written by Stephen King and their respective related merchandises
- Entered into a sale and purchase agreement in December with Adlabs for the sale of a total of 1,400 DSR™ Digital Film Servers between January 2003 and January 2008

### *Training*

- Graduated approximately 120 digital artists in June
- Began third CG training course for approximately 150 students in Shenzhen in September

### *Production*

- Expanded production facilities to approximately 165 digital artists as at 31st December, 2002
- Continued the CG production work for *Thru the Moebius Strip*
- Signed an agreement with a Hollywood animation producer, David Kirschner, for script and other creative development of existing and future projects of the Group in February
- Recruited an art director and cinematographer from the US who have all been involved in large budget Hollywood CG productions
- Created pipeline for television projects

### *Research and development*

- Achieved lower cost solutions for digital cinema
- Finalising a JPEG2000 compression engine for digital cinema solution
- Commenced research and development for interactive digital cinema
- Entered into an agreement and a non-disclosure agreement with TI to allow GDC Technology Limited’s products to interface with DLP Cinema™ projector in April
- Achieved MPEG-2 4:2:2 and 4:2:0 compression engines for digital cinema application; the quality of the solution was examined and evaluated at both the TI’s DLP Cinema Laboratory in Dallas, Texas and at the ETC — Digital Cinema Laboratory in May
- Completed encryption validation tests for final stage decryption for TI DLP Cinema Projector at TI in July
- Working on a 10-bit compression engine for digital cinema compression

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- Conducted numerous field tests of all digital cinema solutions and conducted technology validation tests at TI by Dr. John Soraghan, Reader in Digital Signal Processing, Strathclyde University, the United Kingdom in September
- Began to demonstrate interactive digital cinema prototypes in November
- Began design of derivative products, including a full scale network based entertainment system for a holiday resort/cruise ship group in December
- Developed in-house software CG solutions for *Thru the Moebius Strip*
- Signed a non-disclosure agreement with BDC as part of on-going evaluation tests with it in its digital cinema laboratory in Los Angeles, the US. The purpose of BDC test is to fully evaluate the functionality of Group's DSR<sup>TM</sup> Digital Film Agile Encoder and Digital Film Server.

### *Human resources deployment*

- Recruited 78 digital artists from the second batch of graduates from the Group's CG training course in Shenzhen
- As at 31st December, 2002, the Group had a total of 249 staff, a functional analysis of which is as follows:

Management	6
CG creation and production	200
Research and development	11
Sales and marketing	2
Tutors	9
Finance and administration	21
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Total	249
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### *Finance*

- Obtained a loan facility of RMB30,000,000 from Bank of China, Shenzhen Branch in October, out of which RMB15,000,000 had been drawn down. The operations of the Group were also financed by shareholders' loans/advances. Advance from the executive Director, Raymond Neoh, as at 31st December, 2002 of which HK\$598,000 represented unpaid salaries for the months October to December of 2002 of HK\$247,000 and expenses relating to business trips taken during 2002 and 2001 not yet reimbursed. Advance from the Chief Administration Officer of the Company, Ms. Amelia Mak Lai Yu, as at 31st December, 2002 of HK\$3,300,000 represented additional working capital provided to the Company which was fully settled subsequent to 31st December, 2002. Advance from a shareholder of the Company, Mr. Richard Yingneng Yin, as at 31st December, 2002 of HK\$12,000 represented the costs of business trips made by Mr. Richard Yingneng Yin to the PRC not yet reimbursed. The amount has been fully settled subsequent to 31st December, 2002. In addition, the Group effected a deed of novation under the terms of which the Group agreed to takeover the benefits and obligations of GDC under the Middle Asia Subscription Agreement, pursuant to which the Group provided to Middle Asia Limited the Convertible Note. Middle Asia Limited is wholly owned by a fund which is beneficially owned as to 30% by SW Kingsway and as to 70% by a Hong Kong private company which is also independent of, and 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. The Company repaid the Convertible Note in March 2003.

### **For the period from 1st January, 2003 to the Latest Practicable Date**

#### *Sales and marketing*

- Attended the ShoWest for the promotion of DSR<sup>TM</sup> digital server and encoder in March
- Entered into a co-operation agreement with Shanghai Xin Chang Ning for provision of CG training in Shanghai in February
- Attended the AFM for the pre-sale of *Thru the Moebius Strip* in February
- Delivered 11 and 25 DSR<sup>TM</sup> Digital Film Digital Agile Encoders and DSR<sup>TM</sup> Digital Film Servers to Adlabs in April and May respectively
- Delivered 1 DSR<sup>TM</sup> Digital Film Servers to BDC in June
- Commenced negotiation with an international distributor of *Thru the Moebius Strip* for worldwide distribution except for North America, Japan and the PRC

#### *Training*

- Began recruitment of students for CG training courses in Shenzhen and Shanghai respectively

#### *Production*

- Conducted post-production of *Thru the Moebius Strip* in Los Angeles, the US

#### *Research and development*

- Migrated to newer technology with the primary interests to lower production cost, improve production pipeline, and improve reliability
- Began Near-Term Application-Specific (NTAS) Research with the primary interests to improve competitive edge and meet new (customers/markets) requirements
- Began Mid-To-Long-Term Application-Specific (MTLTAS) Research to with the primary interest to develop new products, markets, and applications

STATEMENT OF ACTIVE BUSINESS PURSUITS

Human resources deployment

●	As at the Latest Practicable Date, the Group had a total of 245 staff, a functional analysis of which is as follows:	
	Management	7
	CG creation and production	176
	Research and development	21
	Sales and marketing	1
	Tutors	23
	Finance and administration	17
	Total	245

Finance

- Obtained a loan facility of RMB30,000,000 from 深圳市商業銀行 (Shenzhen Commercial Bank), out of which RMB15,000,000 had been drawn down. The operations of the Group were also financed by loans/advances of HK\$2,000,000 and HK\$468,000 from Kingsway Finance and Mr. Anthony Neoh respectively in March and April
- Issued 2,302,681 new Shares which shall immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option represent 38,000,000 Share which is at least 4.87% of the total issued Shares to Overseas Chinese Town for a cash consideration of HK\$28,500,000 in June 2003
- Issued 945,311 new Shares which shall immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option represent 15,600,000 Shares which is at least 2.00% of the total issued Shares to CITIC International Assets Management Limited for a cash consideration of HK\$11,700,000 in June 2003