

DESCRIPTION OF BUSINESS

The Group’s business is focused on the digital content industry and mainly in: (1) CG creation and production for its own projects (including development of its own intellectual property and products contracted to it by third parties); and (2) digital content (including entertainment and education content) distribution and exhibitions, as well as imaging applications via digital cinemas and high definition video compression, encryption and derivative technologies. In order to secure stable supply of CG creation and production staff for the Group’s CG projects, the Group also provides CG training courses. The Group targets the global markets in relation to its CG creation and production business. In terms of its digital content distribution and exhibition business, it is initially targeting the PRC (such as Shanghai and Beijing) and Asia Pacific markets such as India, Hong Kong and Singapore.

Process	Creation	Production	Distribution	
Objective	Own or co-own intellectual property	Exploit high value end of market	Lead paradigm shift away from film	Position Group as player in distribution chain
Major types of activities	<div>— Script development</div> <div>— Production design including 2D and 3D artwork</div> <div>— Storyboarding</div> <div>— Derivative product design and development: toys, jewellery, games</div>	<div>— Production of CG movies, television series and games</div> <div>— Production management</div> <div>— CG software development</div> <div>— Training</div>	<div>— Encoder production</div> <div>— Server production</div> <div>— Broadcast and cinema interface production</div> <div>— Upgrades and sales of equipment</div>	<div>— Cinema distribution</div> <div>— Television distribution</div> <div>— Video and music CD distribution</div> <div>— Console and online games distribution</div> <div>— Advertising, live event, alternative content distribution</div> <div>— Derivative products: toys, games, etc.</div>
Management	Group	Group	Group	Group
Execution	Group and some external contractors	Group and some external contractors	Group and some external contractors	External contractors migrating to Group

CG creation and production

The core operations of the Group have been targeted on the following aspect:

Operating a production pipeline

The Group has brought in supervisory personnel in CG production from Hollywood and Hong Kong with a view to developing a studio capable of implementing the Group's CG projects. The Group's production facilities in Shenzhen, the PRC are capable of storyboarding, production design and props development, computer animation and special effects. The Group now employs approximately 200 digital artists and has had the assistance of four experienced US supervisors, namely Bob Koch, Kelvin Lee, Manny Wong and Wayne Kennedy, who all left the Group in October 2002. A number of supervisors and technical directors may be added to the production pipeline as production proceeds. Presently, the Group has the services of Glenn Chaika as director of *Thru the Moebius Strip*. Mr. Chaika has a string of directing credits to his name, including *The Adventures of Tom Thumb and Thumberlina* for Miramax Films/Hyperion Studios. The production is also being assisted by Fred Cline, whose recent work included being the production designer for *Jimmy Neutron*, and by David Smith, a well known Hollywood animation director. In March 2003, the team had been augmented by Harald Kraut and Tim Soman, experienced layout, lighting and special effects supervisors, with a string of credits to their names, including *American Tale Two*, directed by Stephen Spielberg and produced by David Kirschner. In the coming months, they will be joined by an experienced music composer, sound effects designer, casting director for the voices, and editor. For details of the duration of the respective services of the above supervisory personnel, please refer to the section headed "History and development" in this prospectus.

The Group has obtained the copyrights and substantially completed (as to around 70%) the CG production of *Thru the Moebius Strip* in collaboration with Jean "Moebius" Giraud, a French artist who has contributed designs for *Tron*, *Willow*, *Masters of the Universe*, *Alien*, *The Abyss*, and *The Fifth Element*¹. Currently, the Group has over 180 digital artists working on the CG production of *Thru the Moebius Strip*, which is expected to be completed in the fourth quarter of 2003 for release in the first quarter of 2004. Up to the Latest Practicable Date, no revenue has yet been generated from CG creation and production.

The Group has signed two respective agreements both dated 13th February, 2002 with David Kirschner, a Hollywood animation producer, pursuant to which the Group has engaged his supervisory and production and consulting services of David Kirschner in each of (i) the production of *Thru the Moebius Strip* (including the assignment of all results and proceeds of his services thereunder to the Group) and (ii) for script and other creative development of future projects of the Group. Details of the terms of the first agreement with David Kirschner are set out in sub-section headed "Failure of industry partners to provide adequate support" in the section "Risk factors" in this prospectus. The second agreement with David Kirschner expired on 12th February, 2003. David Kirschner has been credited with such productions as *Titan AE*. Subsequent to the expiry of the aforesaid second agreement on 12th February, 2003, David Kirschner has been assisting the Company in sourcing future production jobs as and when suitable

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.

opportunities arise, although no formal agreement has been executed between him and the Group thereafter. The sourced jobs are subject to screening by the Directors and so far no sourced jobs have been undertaken by the Group.

Digital content distribution and exhibitions

The Directors estimate that there are over 1,000 screens in cinemas throughout the PRC. The Group intends to target initially the markets of India, Hong Kong and Singapore and has already started the business of digital content distribution and exhibitions in Shanghai, the PRC and Mumbai, India. The primary operation in Singapore office is research and development of digital cinema technologies of the Group. Up to the Latest Practicable Date, the Group has recruited seven engineers and one general manager in Singapore. The general manager in Singapore is also responsible for marketing and sales of the Group's products in the region. The Group has developed proprietary technologies developed for a variety of digital content imaging applications, including digital cinema exhibition system, a network-based digital content distribution for live and recorded programs, gaming, and video on demand.

Technology development

The Group's technology team, led by the Group's chief technology officer, Dr. Chong Man Nang, who has over 10 years of research experience, has successfully developed and tested an end-to-end cost-effective digital cinema solution for the distribution of HDTV signals from point to point using satellite, broadband or transportable physical storage devices. This digital cinema solution is applied through the Group's proprietary digital film encoder and digital film storage and server, namely, the DSR™ Digital Film Agile Encoder, the DSR™ Digital Film Server, and interactive cinema designed by the Group. The technologies have not been patented as the Directors consider that patenting the technologies will potentially expose the secret of the technologies to third parties instead of protecting it. However, the technologies were developed by the chief technology officer of the Group and there are contractual arrangements between the chief technology officer of the Group and the Group for protecting the Group's rights and interests in such technologies. The DSR™ Digital Film Server has been installed at the Shanghai Paradise, a 1490-seat, 9-screen Cineplex, which screens both local and imported films and the DSR™ Digital Film Agile Encoder was adopted to produce the film *The Missing Gun* (“尋槍”), the PRC's first digitally released, film-originated movie, in April 2002. In addition, the Group has entered into a sale and purchase agreement with Adlabs for the provision of a total of 1,400 DSR™ Digital Film Server between the period from January 2003 and January 2008. The hardware components of the DSR™ Digital Film Servers, which were enhanced by the Group with its proprietary technology before delivery, are manufactured and/or assembled by its suppliers in Taiwan on an OEM basis.

Franchise of digital content equipment

During the Track Record Period, the Group supplied DSR™ Digital Film Servers and other related equipment to the Shanghai Paradise and the Grand Theatre. The Group is entitled to receive franchise fee quarterly for 10 years and share in box office receipts from exhibition of digital movies under the agreement with Shanghai Paradise Corporation. Under the agreement with the Grand Theatre, the Group is entitled to receive fixed rental quarterly for the period until the Grand Theatre ceases to show films upon its major renovation.

Based on the DSR technology, the Group has developed the following products:

DSRTM Digital Film Server

DSRTM Digital Film Server is a digital film storage and server that is capable of receiving, storing, decrypting and playing out real-time high definition images suitable for digital cinema applications. This server is designed specifically to meet the specifications of the new generation of TI's DLP CinemaTM projectors such as CineLinkTM. The DSRTM Digital Film Server can also be equipped with a satellite receiver to show high quality HDTV live events including sports, concerts, auctions and educational programs in digital cinemas. Operating DSRTM Digital Film Server is intuitive. A touch-screen LCD panel provides easy-to-use audio and video clip administration as well as non-linear play lists. The non-linear playlist administration and digital communications enable dynamic transmission and scheduling of advertising thus opening up new revenue opportunities in "real-time" cinema advertisement.

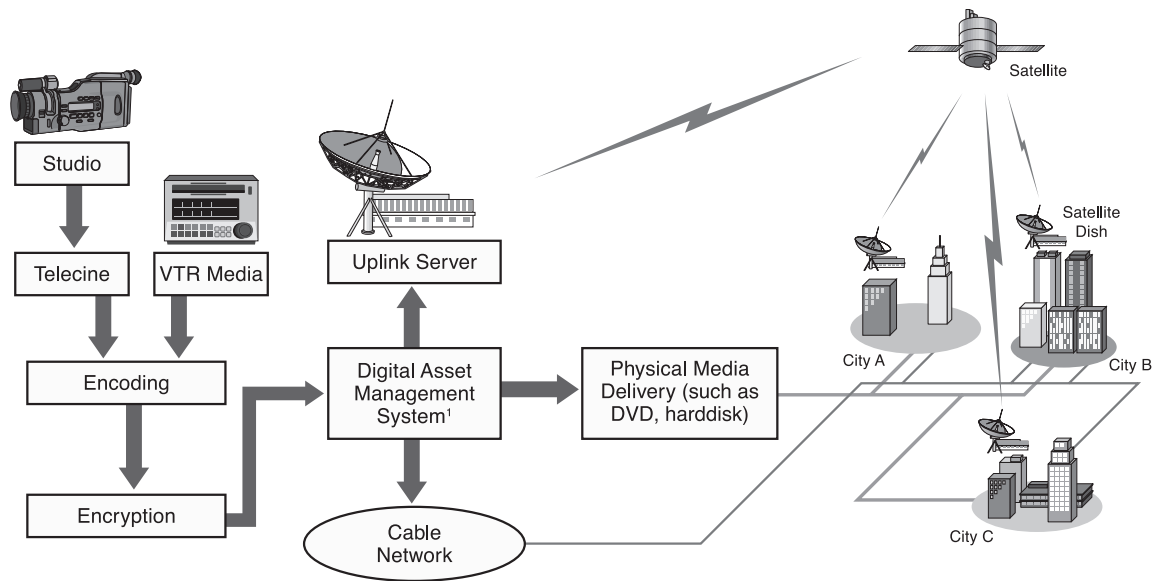
DSRTM Digital Film Agile Encoder

DSRTM Digital Film Agile Encoder is an encoder that has concurrent storage and server capabilities. The encoder is tailored to work with the telecine suite of equipment for digital cinema applications. The offline encoding provides a non-chipset based, flexible architecture that accommodates various compression engines such as MPEG2, JPEG2000 and proprietary algorithms. The DSRTM Digital Film Agile Encoder provides a flexible and open compression approach to take advantage of the latest compression technology and standards. In other words, the Agile Encoder can be conveniently updated with the latest compression algorithms.

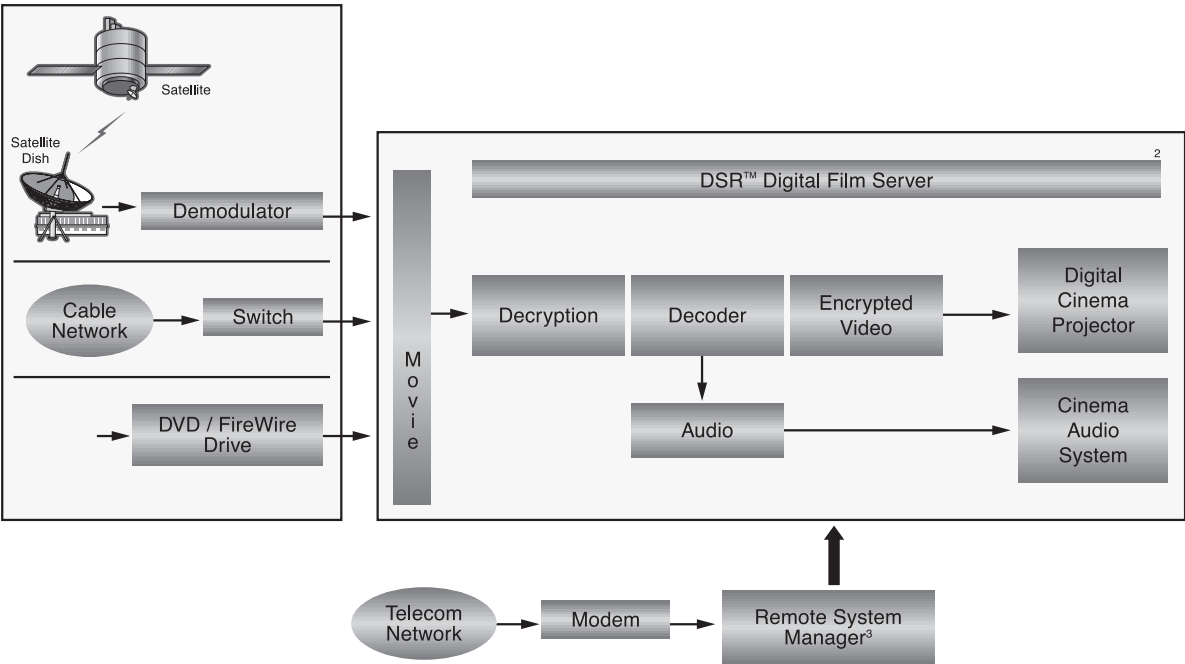
The DSRTM Digital Film Agile Encoder offers uncompressed digital film storage in a compact chassis of 5RU which can record more than two hours of uncompressed digitized movie at 1920x1080x30bit pixels at 24fps (more than 2 TeraBytes of storage). The DSRTM Digital Film Agile Encoder provides excellent picture quality, system flexibility, reliability and security for digital film mastering applications. The content such as image and audio is stored using a proprietary data format (with or without compression applied). Additional security is introduced to ensure that the encrypted data is unusable even if it is stolen or duplicated. Multiple encryption keys are required to unlock the image, audio and subtitle data. The DSRTM Digital Film Agile Encoder provides options to distribute the digital copy of the movie by satellite, public network (which requires permission to be obtained from the network by the owner/operator of the Encoder), or physical media such as hard disk drive and DVD-ROM. The DSRTM Digital Film Agile Encoder can handle multiple sound-tracks and subtitles (in different languages).

Digital content distribution

The Group’s digital content distribution architecture is illustrated below.



Digital Content Distribution Framework for Digital Cinema



Notes:

- 1. A central system for communicating and processing various signals and files from different media.
- 2. The Group’s product.
- 3. A remote management system which allows users to control the Server from a long distance.

Essentially the Group's digital content distribution architecture comprises an agile encoder that compresses the digital film into compressed signals which are subsequently encrypted and packaged for delivery via satellite, broadband or transportable physical media such as Firewire hard disk drives or DVD-ROMs. The digital film encoder and encryption engine are implemented in software which is not susceptible to change in compression standards.

The Group's research and development team has also achieved a number of breakthroughs, including an MPEG-2 4:2:2 digital film server, the only MPEG 4:2:2 digital film server for the digital film industry as at the Latest Practicable Date. Presently the research and development team is developing a software JPEG 2000 based digital film server that is to be delivered by the first half of 2003. The next generation of encoder and digital film server will improve in picture quality by adopting 10-bit quantization solution; the 10-bit encoder and digital server are expected to be deployed by the first half of 2003. The research and development team keeps in close touch with developments in the standards being discussed in the Committee DC28 of the SMPTE. The Group is confident that it can adequately respond to the DC28 requirements in a timely manner due to the flexibility of its software architecture.

The receiver and player comprise the part of the architecture which is placed in the cinema. The heart of this part is the Group's proprietary DSRTM Digital Film Server, which receives the compressed and encrypted signal and decompresses and decrypts it. The hardware components of the DSRTM Digital Film Servers, which were enhanced with its proprietary technologies before delivery, are manufactured and/or assembled by its suppliers in Taiwan on an OEM basis. The decrypted signal is re-encrypted using TI's CineLinkTM encryption algorithm; the final decryption occurs inside the projector in route to the screen. The data is always stored with encryption in the digital film server. In addition, the digital film server is built with redundant power supplies and array of disk drives, to provide best possible reliability to the theatre system. Besides providing the standard play, stop, pause, rewind and forward in the server, the server is capable of playing-back a playlist of clips comprising trailers, commercials and movies. Both the uncompressed multiple PCM audio channels (upto eight discrete digital audio channels) and Dolby's AC-3 audio formats are supported in the Group's digital film server.

The Directors believe that the Group's digital cinema system can be the solution to upgrade the existing cinema systems in the PRC and India.

Currently, the Group has entered into agreements with Shanghai Paradise Corporation and the Grand Theatre that operate cinemas in Shanghai, the PRC and has other cinema operators in major cities such as Shanghai and Beijing under negotiations for the provision of digital projection and playback equipment. Pursuant to the Group's agreements with Shanghai Paradise Corporation and the Grand Theatre, cinema venues would be provided to the Group for the operation of digital cinemas, whilst all necessary digital projection facilities and technical support would be provided by the Group and the parties will share in the box office receipts and advertising income. The Group is also working with partners in the PRC including the CFG to lay a digital distribution network for movies, advertisement and live events among cinemas in the PRC.

Provision of CG training courses

The Group has organized computer animation training courses in Shenzhen in cooperation with Shenzhen University which will serve the dual purposes of (i) contribution of revenue and (ii) ensuring a continued supply of qualified CG artists for the Group's CG projects. The school mainly recruits graduates from schools of fine arts in the PRC and has the current capacity to provide training to 150 digital artists every nine months. Shenzhen University receives a fixed fee for the provision of public facilities to the students of the training courses, whilst the Group is responsible for all other expenses including the payroll for the tutors and rent for classrooms and dormitories. Since its establishment and up to the Latest

Practicable Date, the Group graduated three batches of students comprising a total of approximately 420 digital artists, approximately 200 of whom were chosen to work after graduation in the Group’s Shenzhen CG production studios. The Group deploys an experienced team of technical and creative professionals to provide guidance to students and has produced a series of Chinese books for its CG training courses. In February 2003, the Group has entered into an agreement with the Shanghai Xin Chang Ning for, among other things, the provision of CG training in Shanghai. In March 2003, the Group started to organize CG training courses in Shanghai which maintains the capacity to provide training to 160 digital artists. The Group intends to franchise its training operations to other cities in the PRC and Asia, initially in Malaysia.

REVENUE MODEL

Set out below is a summary of the Group’s revenue model.

Revenue model for existing business

Nature of business	Source of revenue	Basis of charge	Revenue recognition	Payment terms offered
(1) Digital content distribution and exhibitions	Revenue from sale and maintenance of equipment, franchise and management fees and rentals for digital cinemas and digital content imaging applications	Governed by contract terms	(i) Revenue from sale of equipment is recognized upon delivery of equipment to customers; (ii) revenue from maintenance of equipment is recognized on a straight-line basis over the period of maintenance; (iii) franchise and management fees are recognized on a straight-line basis over the period of the service; and (iv) rental income is recognized on a straight-line basis	Customers of sale of equipment will be required to settle the invoices in cash or by way of letters of credit prior to delivery or be given a short credit period of a maximum of 30 days from the date of invoices. Maintenance fees, franchise and management fees and rentals are to be settled within 10 days after each calendar quarter end
	Share of box office receipts from showing films and alternative programs such as lectures and sport events in digital cinemas	Governed by contract terms	Box office receipts are recognized upon submission of cinema operators’ statements	There will be no credit period offered to cinema operators for the box office receipts as the receipts are required to be credited to the Group’s bank accounts by way of bank transfers upon submission of the cinema operators’ statements
(2) Provision of CG training courses	Share of tuition and franchise fees from CG training courses	Governed by contract terms	Fees are recognized over the period of the course	Payment must be made in full at the commencement of the training courses

Revenue model for future business

Nature of business	Source of revenue	Basis of charge	Revenue recognition	Payment terms offered	Estimated commencement time of receipt
(1) CG creation and production	Fees from production of movies, television, commercials and games contracted to it by third parties	Governed by contract terms	Fees are recognized when services are rendered and with reference to stages of completion where appropriate	Settlement is required within an agreed timeframe, usually within 30 days from the date of invoices	December 2003
	Box office receipts and sale of videos, DVDs, games, television broadcasting, satellite broadcasting and cable broadcasting from productions in which the Group has an interest	Governed by contract terms	Box office receipts are recognized when the digital motion pictures are exhibited. Revenue from sale of videos, DVDs and games are recognized upon availability of sale by distributors/retails.	Payment is due and payable within 30 days from the date of invoices	June 2004
			Revenue from the licensing of productions for broadcasting are recorded when the material is available for broadcasting by the licensee and when the terms of the licensing agreement are met		
	Revenue and licensing fees from merchandising and publishing rights on the Group's intellectual property	Governed by contract terms	Revenue is recognized when the underlying royalty income is earned	Payment is due and payable within 30 days from the date of invoices	August 2004
(2) Digital content distribution and exhibitions	Fees from cinema advertising which are expected to be predominately solicited by the cinemas	Governed by contract terms	Fees are recognized upon submission of cinema operators' statement	There will be no credit period offered to cinema operators for the box office receipts as the receipts are required to be credited to the Group's bank accounts by way of bank transfers upon submission of the cinema operators' statement	January 2004
(3) Provision of CG training course	Share of franchise fee from CG training course	Governed by contract terms	Fees are recognized on an accrual basis in accordance with the substance of the relevant agreement	Payment is due and payable within 30 days from the date of invoices	June 2005

COMPETITIVE EDGE

Although competition within the CG industry is intense, the Directors believe that the Group has the following competitive edge:

- the integration of pre-production facilities (comprising a team of sculptors, graphic designers and storyboard artists) coupled with the CG production studio makes the Group self sufficient in an efficient manner;
- research and development capabilities in CG and CG film production as the Group develops most of its own software tools for CG production;
- a stable pool of digital artists cultivated by the Group through its training courses (as demonstrated by the number of graduates ultimately employed by the Group);
- senior management with over 15 years' of experience and business network in the CG industry to facilitate the sourcing of CG works and establishment of business relationships with industry partners;
- collaborations with Shenzhen University, CFG, Sony Pictures Imageworks and TI;
- lower labour costs in CG film making of the Group as compared to those in the US;
- well developed production pipeline which consists of well-defined workflow and working cells/modules with sophisticated internal supervisory control;
- proprietary DSRTM technologies in digital film processing, encryption, compression, storage, delivery and distribution; and
- employment of over four overseas technical and creative professionals (who all have past experience in Hollywood's film industry) for CG production.

CG PRODUCTION PROCESS

The development and production of CG animated feature films or television programs is complex and time consuming due to the very large number of frames and intricate details of each frame. The production of the computer-animated films and television series consists of four stages: creative development, pre-production, production and post-production. Details of each of the stages are outlined below:

Creative development

Creative development is an interactive process in which the story and its characters are created and developed. The first step in creative development involves the development of a story concept, which often takes the form of a story summary or an outline known as a "treatment." After numerous interactions and research into the story and characters, a first draft of a script is written by the script writer to that story.

Pre-production

The pre-production stage begins when the script is turned into storyboards, which are panels filled with thousands of sketches that represent the story to be animated. The storyboards are then transferred to films or video clippings so that they can be electronically edited into a photo play of the

film called story reels, a process that enables editing of the film before the production phase begins. Audio effects are then selected, recorded and added to the story reels. Throughout the creative development and pre-production processes, plans are developed for the style, colors and look of the film.

Production

The Group's production stage consists of many phases, the more important ones are: modeling, layout, animation, shading and lighting, rendering and film recording. In the modeling phase, digitized models of each set and character are created by defining their shapes in three dimensions (height, width and depth) and by adding animation control points that allow the model to be moved or animated. In some cases, a model has hundreds of animation controls. In the layout stage, artists place simple digital models into a scene and position the digital cameras at the angles from which the 3D shot is to be seen. The assembled shot is then given to the animator together with the pre-recorded voice.

In the animation stage, the digitized models are animated, or "brought to life", in 3D to create a motion sequence. The next step in completing a scene requires attaching to each object and model, a description of its surface characteristics. These "shaders" describe the pattern, texture, finish and color for every object in the scene. Next, lighting is added by placing digital lights into the scene. In the rendering phase, the renderer takes the modeling, layout, animation, shading and lighting data and, for each frame in the sequence, computes a 3D image of what the scene looks like at that point in time from the point of view of the camera. The final rendering of a single frame takes an average of one to four hours, but a small percentage of more complex frames can take much longer, between 20 and 40 hours each or more. The final rendered digital image is then sent to those film recorders to be photographed onto film. While film is the primary means of distributing motion pictures to theatres, digital electronic projectors have recently achieved the brightness and high resolution necessary to project movies on theater screens without the use of films. As the films are produced digitally, they are uniquely suited to this method of presentation.

Post-production

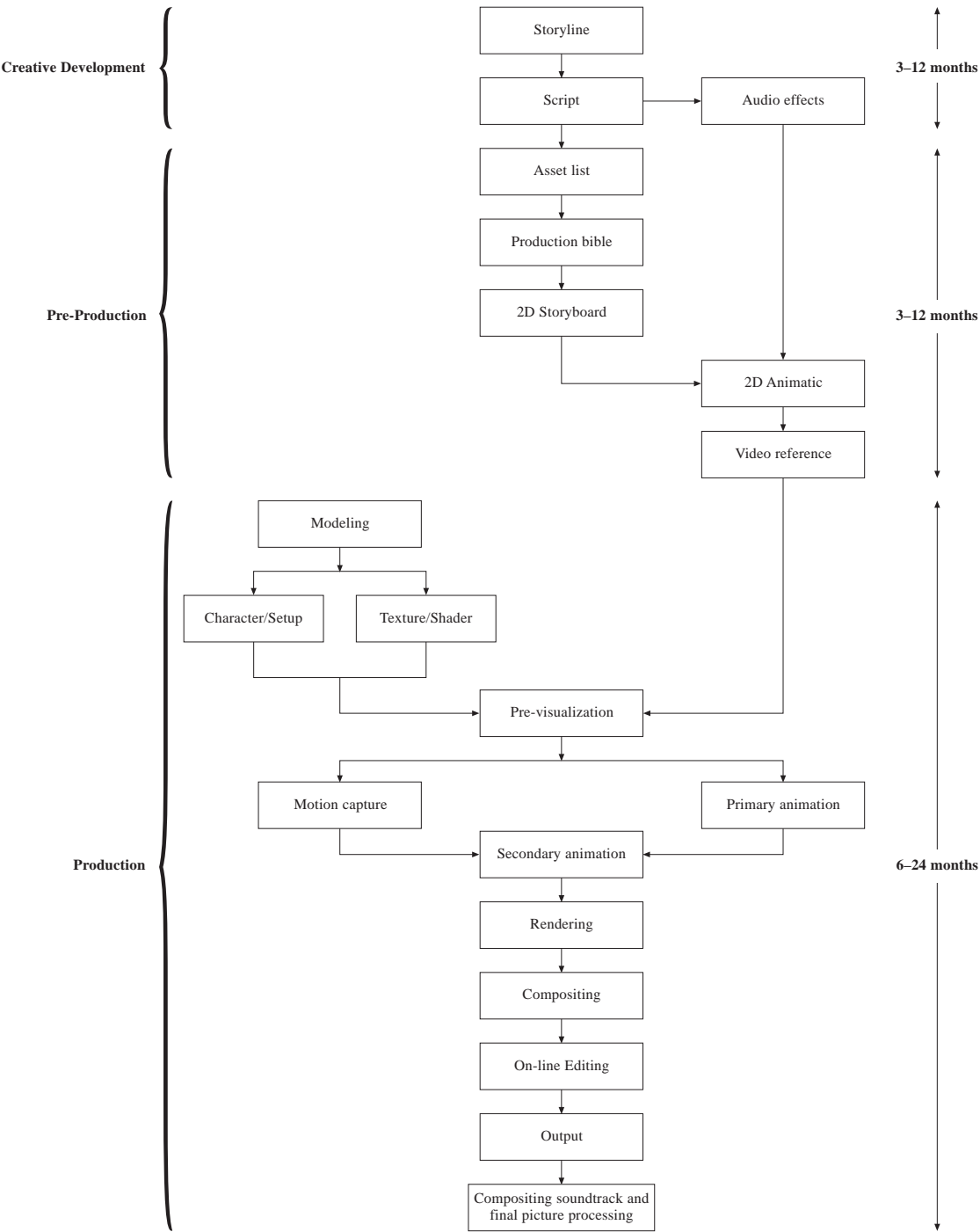
The post-production stage consists of two parallel processes: the picture process and the sound process. In the picture process, images are put on film which is then sent to a laboratory for color correction and final prints are made. If the film is shown digitally, the Group transfers the original rendered data for each frame onto a digital image compression device which is then used to project the movie electronically. In the sound process, the sound effects and musical score are added and the final sound is mixed. The post-production is more complex in a live-action film, which requires more significant editing. In most live-action films, many hours of film are shot, and the film is then significantly edited and re-edited in the post-production stage to create a feature film. Since the Group edits the film throughout the entire creative development and production process, post-production involves only final editing.

The digital models that the Group develops to create its animated products may be used again in future films and television characters, set and props, commercials and other animation products. The technical team has maintained a proprietary database of thousands of digital models, sets, textures and surface appearances created by the production team. The relevant database is specifically written to cater for the production pipeline of the Group, which links up, on a daily basis, all the digital assets/icons created by the production team of the Group under a strictly adhered naming convention and

publishing system. Much like the traditional movie studio’s back lot, this digital database allows animators to retrieve and re-use these items in other productions and as models for merchandise in some circumstances.

The following chart illustrates a general flow of the current production process conducted by the Group:

Descriptions of production flow



Creative development

1. *Storyline and script* The producers will first prepare a brief description of story (called a “treatment”) for discussion with a story director who sketches out the screenplay as “beats”. After discussions, the beats will then be transformed into the screenplay by the script writer. Thereafter, the screenplay is discussed and finalized into a “shooting script”. The shooting script is thereafter usually changed in slight degrees only.

Pre-production

2. *Asset list* The production studio will issue to the producers an asset list setting out its requisite information including all characters, props, scenes, etc. according to the script, broken down by scenes.
3. *Production bible and 2D story board* The producers will engage an art director to prepare a booklet containing the sketches of all characters and props with design features in different angle of views.
4. *Voice recording* The producers will usually cast and record the voice to digital wave files.
5. *2D animation* The producers will usually transform storyboard into video format and match the timing of each shot of the moving picture. This is called an animatic. This is a collaborative effort between the producer, the director and the storyboard director who usually doubles up as director of cinematography.
6. *Color script preparation* A color script showing the main key color of each scene is prepared by the art director.
7. *Video referencing* The producers sometimes use digital cameras or a computer/camera setup (called a “motion capture system”) to set live motion shots for tracing the movements of characters and scenes.

Production

8. *Modeling* The production studio will build a digital model of all characters and props according to the design set down in the production bible.
9. *Set up of characters* The producers will construct a skeleton and movement set up for each digital model.
10. *Color and texture creation* The digital artists of the production studio will create color and create texture on each digital model.
11. *Pre-visualisation* Preview of whole moving picture in a 3D simple skeleton layout.
12. *Primary animation* The production studio will construct 3D animation motions for each character and prop, where appropriate.
13. *Secondary animation* The production studio will composite all characters and props animation and background scenes into individual pictures, and create facial deformation and lip synchronisation for all characters.

14. *Rendering* The production studio will use its computer rendering farm system to generate the color and the textures of all scenes as a continuous moving picture.
15. *Compositing* The studio will composite all different layers of pictures and 2D effects onto the output pictures generated from the rendering farm and produce final moving animation pictures.
16. *On-line editing* The producers with the assistance of experienced editors, will edit all shots after compositing into a full version moving picture.
17. *Output* The studio will transform the output file into a digital storage medium.
18. *Motion capture* Motions of human actors are digitally captured by computerized cameras to aid the animation process.

Post production

19. A final edit (also called the “final cut”) will be undertaken by the chief editor in consultation with the director and the producers. This final edit will incorporate the sound effects and music precisely timed to the animation and voices. Color correction will then be applied to this final edit and then output to a D5 magnetic tape. This tape will then be further output to a film or encoded digital master as the distribution modality requires.

PROJECTS ON HAND

The Group’s current project is a movie entitled *Thru the Moebius Strip*. *Thru the Moebius Strip* is a high definition feature film with a science fiction/fantasy epic story about physicist Simon Weir, who becomes lost and trapped in a distant planet after he crossed a space-time portal he created. Eight years later, his son, Jac Weir, finally found the portal and crossed over to rescue the father from the alien planet and at the same time, helped his father’s giant alien benefactor regain his throne.

The Group has obtained the right of production of *Thru the Moebius Strip* and relevant intellectual property rights in relation thereto including copyright and all other rights throughout the world. The production of this film is initiated, financed and owned by the Group. The main line-up of this film is as follows:

Conceptual artist:	Jean Moebius Giraud
Script writer:	James Cox and Paul Gertz
Director:	Frank Foster and Glenn Chaika
Art director:	Jean Moebius Giraud and Fred Cline
Director of cinematography:	David Smith
Executive producers:	Raymond Neoh and Arnold Gene Wong
Production creative consultant:	David Kirschner (who has the option to the producer’s credit)
Production technical consultant:	Sony Pictures Imageworks

The creative development, pre-production and production of *Thru the Moebius Strip* are still ongoing. As at the Latest Practicable Date, the Directors estimate that around 70% of the entire production of *Thru the Moebius Strip* has been completed and the negotiation for pre-selling thereof has commenced in the first quarter of 2003. Up to the Latest Practicable Date, no agreement in respect of pre-selling has yet been entered into. The estimated total production cost is approximately HK\$78,000,000. Up to the Latest Practicable Date, the costs incurred were approximately HK\$60 million and the Directors confirmed that they are in line with the budget. The Directors expect a further amount of approximately HK\$7.8 million is

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. The Directors further expect that the film will be completed in the last quarter of 2003 for release in the first quarter of 2004. The details of the cost incurred in relation to the aforesaid project are set out in the accountants' report in Appendix I to this prospectus and the Directors are of the opinion that the costs incurred for production work in progress carried forward in the balance sheet as at 31st January, 2003 are fully recoverable.

PROJECTS UNDER DISCUSSION

During December 2002 to April 2003, the Group has reached understandings with WAMC, Inc. for the financing, co-production and distribution of the television series *The New Adventures of Raggedy Ann & Andy* (with 52 episodes exploring the magical combination of love and imagination for childhood), the television series based on *Thru the Moebius Strip*, the feature film *The Eyes of the Dragon* (adapted from a novel by Stephen King and is of a "humor and action" nature) 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.

Besides, the Group has other projects under discussion, which include the *Thru the Moebius Strip* on-line game and the Sandman platform (a console game) for PlayStation 2, the X-box game with Equinox in the US, the financing, co-production and distribution of television series of *the Panshel*, *the Flying Panda* with WAMC, Inc and *Bits and Bytes*, a CG animated film.

INDUSTRY PARTNERS

The Directors believe that the Group's capacity to produce CG animation is further proven by its ability to partner and collaborate with various leading players in the industry in various projects. Some of the Group's industry partners are listed out as follows:

Sony Pictures Imageworks

In August 2000, the Group signed a consultancy agreement with Sony Pictures Imageworks which is an independent third party 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, pursuant to which Sony Pictures Imageworks has agreed to provide consulting services to GDC Entertainment Limited in connection with the Group's development and production of *Thru the Moebius Strip*, in particular the special effects and rendering used in the film. As consideration for providing the aforesaid consultancy services, Sony Picture Imageworks is entitled to collect 1% of the "net profits", if any, derived from the exploitation of *Thru the Moebius Strip*. The aforesaid "net profits" which forms a determinant, upon which the consideration is calculated, is equivalent to all the revenue which GDC Entertainment Limited derives from broadcast (including Internet), videograms, public showing, performance and merchandising of *Thru the Moebius Strip* less the copyright royalties, cost of distribution and cost of production.

David Kirschner

The Group has one existing agreement dated 13th February, 2002 with David Kirschner. David Kirschner is a Hollywood animation producer credited with such productions as *Titan AE*. Pursuant to the terms of the agreement, the Group has engaged David Kirschner to provide supervisory and production and

consulting services as producer of *Thru the Moebius Strip* on both a fee for service or co-investment basis. For further details of this agreement, please refer to the sub-section headed “Failure of industry partners to provide adequate support” in the section headed “Risk factors” of this prospectus.

CFG

CFG is a large cinema operator film production and distribution group in the PRC with rights to import and export films.

The Group has entered into a legally binding memorandum of understanding dated 11th May, 2001 with the CFG for equipping 500 screens 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. According to the terms of the memorandum of understanding, the Group is responsible for providing the necessary technicalities and facilities (including 500 screens) to set up digital cinemas in the PRC, whilst the CFG will work alongside the Group to facilitate the upgrade of existing cinemas into digital cinemas. The consideration for the aforesaid arrangement will be determined subject to further negotiations between the parties and the Directors (including the independent non-executive Directors) will ensure that the terms of the arrangement will be on normal and commercial terms. Up to the Latest Practicable Date, no digital cinema equipment has yet been equipped under such memorandum of understanding.

Shanghai Paradise Corporation

Shanghai Paradise Corporation was incorporated into the Shanghai Film Group as part of the PRC’s efforts to create film conglomerates. The Group has entered into a contract in February 2002 with Shanghai Paradise Corporation in relation to its first digital cinema (namely, the Shanghai Paradise) in the PRC and also for the use of digital technology in cinema advertising. Under the aforesaid contract, Shanghai Paradise Corporation agreed to provide Cinema No. 8 of Shanghai Paradise Corporation’s cinema premises as the venue to operate the Shanghai Paradise, whilst the Group provided all necessary digital projection facilities and technical support at a quarterly fee of RMB20,000 per quarter payable in arrears, to enable the operation of the Shanghai Paradise. The term of this contract is for 10 years. Pursuant to this contract, net profits (after tax and government fees) and box office receipts (after business tax and government fees) due to the digital cinema business and share of advertising fees income due to the digital advertisement business will be respectively distributed to Shanghai Paradise Corporation and the Group in the proportion of 90% and 10% and in the proportion of 50% and 50% respectively. All of the Group’s technical equipment to operate the Shanghai Paradise will belong to Shanghai Paradise Corporation upon expiry of the contract.

TI

Pursuant to an agreement dated 19th April, 2002 between GDC Technology Limited and TI, TI has allowed the products of GDC Technology Limited to interface with DLP™ Cinema projector, and such agreement, which stipulates no specific term, is effective until terminated upon breach of such agreement by GDC Technology Limited. The access to the technology of TI’s DLP™ Cinema projector is subject to TI’s approvals, which approvals may not be granted by TI easily given TI’s intellectual property protection concerns. The agreement enables the Group to access its object codes so that it may develop encryption compatible with the standards employed by TI in their DLP™ cinema projectors. The Group has recently passed all validation tests with TI’s encryption systems. The Group continues to work to meet TI’s evolving requirements. No consideration is involved for the agreement.

WAMC, Inc.

WAMC, Inc. is a California corporation co-founded by Sidonie Herman and Dominique Bovio in 1995. Sidonie Herman has over 25 years of experience in the field of international production and programming including 10 years of experience in the multimedia program financing and distribution. Dominique Bovio has 22 years of experience in the field of communication and marketing including 10 years of experience in the television program financing and distribution.

WAMC, Inc. specializes in distributing a catalogue of rights for entertainment including television, video/DVD, interactive products, book publishing and other ancillary rights. These quality content programs are mainly animated series geared towards kids and families (like *Horrible Histories* co-produced by Scholastic and Mike Young Productions) but also documentaries, educational programs and television movies for family audience.

Since 2001, in order to feed the future distribution department of the company, WAMC, Inc. has begun to negotiate different rights to become owners or co-owners of literary rights and/or co-production rights in the only perspective to control the quality of the programs. The distribution rights obtained by WAMC, Inc. include: *The New Adventures of Raggedy Ann & Andy*, a 52-episode 3D/CG television series and *The Eyes of the Dragon*, an animated feature film adapted from a novel written by Stephen King. During December 2002 to April 2003, the Group has reached understandings with WAMC, Inc. for the financing, co-production and distribution of the television series *The New Adventures of Raggedy Ann & Andy*, 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. In addition, the Group is negotiating with WAMC, Inc. on possible co-production, financing and/or distribution of the television series of *the Panshel*, *the Flying Panda* and its related merchandises.

Overseas Chinese Town

Overseas Chinese Town is a wholly owned subsidiary of Overseas Chinese Town Holding Company (華僑城集團公司). Overseas Chinese Town Holding Company is wholly owned by State Assets Regulatory Commission of PRC* (中國國有資產監督管理委員會). The principal business of Overseas Chinese Town is investment management and its principal business activities include businesses involved in paper packaging, household electronic appliances, hotel and tourism (which includes the operation of theme parks and related businesses). Overseas Chinese Town is an independent third party 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. **Overseas Chinese Town is a Shareholder and will hold approximately 4.87% of the enlarged issued share capital of the Company upon the Listing Date.**

Pursuant to a consultancy agreement dated 10th June, 2003 entered into between Overseas Chinese Town and the Group, Overseas Chinese Town shall (i) on its own (or procure its member companies in the PRC) be appointed as the merchandising sales agent of the Group's intellectual property rights to *Thru the Moebius Strip* in the PRC market; and (ii) advise the Group on the development strategies, business promotion and commercial opportunities of the CG and media industry in the PRC by way of providing the Group with a report on an annual basis and providing the Group with the relevant research report and consultancy service upon request by the Group. Under the relevant consultancy agreement, the consideration for the aforesaid services is HK\$1,900,000 payable in cash by the Group and the aforesaid

* For identification purposes only

services cover for a term of three years commencing from 10th June, 2003. The Directors confirm that the consideration for the aforesaid services is fair and reasonable so far as the Shareholders are concerned and it is in the ordinary and usual course of business of the Group.

Shanghai Xin Chang Ning

Shanghai Xin Chang Ning is a company wholly owned by the Shanghai Municipal District of Chang Ning which is engaged in real estates business and an independent third party 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.

In February 2003, the Group has entered into an agreement with Shanghai Xin Chang Ning for, among other things, the provision of CG training in Shanghai.

SUPPLIERS

The Group's major suppliers of computer software are Alias Wavefront and Discreet which are 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. Alias Wavefront is the supplier of the CG software MAYA to the Group's studios and provides customised technical support to the Group's CG development and production work connected with MAYA. Discreet is the supplier of the 3ds max CG software to the Group's studios and provides customised technical support to the Group's CG development and production work connected with 3ds max. IDMT is also an accredited 3ds max training school. Dell Computer (China) Company Limited ("Dell"), an independent third party 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, is the major supplier of computer hardware for the Group's production studio and training school. IDMT and Dell entered into an agreement dated 31st July, 2001 pursuant to which IDMT agreed to expedite/streamline its purchase of computer products from Dell, based on its application of its company seal onto price quotations from Dell, as confirmation of order. The payment terms for hardware/software ranged from advanced deposit to 30 day's credit period.

During each of the two years ended 31st December, 2002 and the one month ended 31st January, 2003, (i) the five largest suppliers of the Group's computer hardware and software accounted for approximately 91%, 91% and 100% of the Group's total purchases of computer hardware and software respectively; and (ii) the single largest supplier of the Group's computer hardware and software accounted for approximately 65%, 40% and 98% of the Group's total purchases of computer hardware and software respectively. During the Track Record Period, the Group's purchases from the five largest suppliers (i) were settled either in HK\$ or US\$ by cheque or by telegraphic transfer; and (ii) were payable either on credit with a credit term of 30 days in general or on a cash-on-delivery basis. None of the Directors, their respective associates and Shareholders who own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers of the Group.

PRODUCTION FACILITIES

The Group leases its production and training facilities in Shenzhen, the PRC, which have a gross floor area of approximately 6,000 square meters. As at the Latest Practicable Date, it had 204 units of workstations, all of which have dual monitors. Also, the Group has a dedicated rendering farm with 100 processors on a gigabyte fibre network. All works produced daily is viewed in the Group's proprietary Digital Super Realism System.

As at the Latest Practicable Date, the Group's CG creation and production team has 21 2D artists which including the storyboard artists, 55 animators, 12 3D digital modelers and 88 3D artists of other effects and skill, of which approximately 45 of them were graduated from fine arts colleges and 27 of them have over three years of creative work experience. The Group also has had the assistance of four overseas animation CG supervisors who have been key animators and supervisors in major Hollywood box office success including *Toy Story*, *Toy Story 2*, *A Bug's Life*, *Stuart Little*, *Aladdin*, *Men in Black*, *Hollow Man* and *The Patriot*.

The Group's production team also has sculpture and storyboard divisions which are essential to pre-production. The Group also develops in-house software tools to meet the special requirements of CG production. These tools include a mushroom scene creation and distribution tool, line shaders, set driven key tool and numerous utilities to increase the efficiency of the artists. For example, a background consists of "mushroom forest" is used extensively in certain scenes in *Thru the Moebius Strip*.

TRAINING FACILITIES

The Directors consider that securing a pool of dedicated, high quality CG production talent is one of the key success factors in the CG creation and production industry and therefore they believe that the Group has to train its own personnel in order to become a significant and quality production house with scale. In August 2000, the Group entered into an agreement with Shenzhen University, pursuant to which a CG training course is jointly run with Shenzhen University. Under the terms of the agreement, Shenzhen University is responsible for providing training premises, offices and dormitories conducive towards the running of the training course, and the Group is responsible for providing equipment, course materials, lectures and tutors. Currently, IDMT has a 10-year lease of premises from Shenzhen University commencing from June 2000. In return, the Group shall pay a sum of RMB2,000 to Shenzhen University for every student who attends the training course. The aforesaid agreement has been approved by the relevant PRC authorities and legally binding according to the legal opinion prepared by the Group's PRC legal advisers.

IDMT has the capacity to provide training to 150 digital artists in Shenzhen every nine months. It completed its first nine-month CG training course in September 2001 with approximately 150 graduates and its second nine-month CG training course in September 2002 with approximately 120 graduates. Most of the graduates of the aforesaid courses have been employed by the Group after their graduation. The third nine-month CG training course was completed in June 2003 with approximately 150 graduates. These graduates are currently undergoing on-the-job training offered by the Group.

In addition, in March 2003, the Group started to organize computer animation training courses in Shanghai with a capacity to provide training to 160 digital artists every ten months.

IDMT offers full-time intensive CG production training with each student equipped with a work station. Its faculty members come from US production studios and Chinese universities and institutes. The course includes not only training in application of 3D CG software but also arts such as painting, acting, script reading and writing, directing and computer science, etc. The school and the laboratories are opened 7 days a week.

IDMT has developed a comprehensive CG curriculum. The Group has developed over 2,000 pages of in-house curriculum and produced three "IDMT CG Series" Chinese books published by Hope Publisher which is one of the leading CG Chinese book publishers in Beijing in 2001 and another series of Chinese books in early 2002. IDMT has a film library which subscribes to the latest CG magazines from Japan, Europe and the US.

QUALITY CONTROL

The Directors consider that implementation of a set of stringent quality control procedures is of the utmost importance to the Group.

CG creation and production

The Group imposes and maintains quality control procedures throughout the production process of the projects to meet client requirements. Each project is divided into different stages, namely, the creative development, pre-production, production and post-production stage.

In the *Thru the Moebius Strip* project, the director of the film is the putative client. He defines the production requirements through the pre-production process where he works with the Group's 2D artists, the art director and the director of cinematography. A closed loop feed back system is established between the director and the production department, so that work product is reviewed and approved on a continuing basis until the production is finished. The director is also in charge of the post-production process which will in large part be done in the US. In future projects, the client who contracts out the production projects to the Group takes on the same position as the director and works with the production department in the similar way of the *Thru the Moebius Strip* project.

From the commencement of a project, the production department employs a dedicated team comprising the asset integrity assurance group and the project planning and support group is set up to monitor the progress and status of the project and to solve any issues that may arise in relation to production, in particular, the quality of the product. While the animation manager of a particular project oversees and reviews the production process in respect of the project plan, the overall quality of the project and the finished product is monitored by the asset integrity assurance group specifically appointed for the purpose with special emphasis on adherence to quality control procedures, compliance with industry standards and conformity with customer's specifications. The Group has set up a comprehensive set of production quality standards and guidelines to ensure high quality output of art and visual effects of movies. Such comprehensive set of production quality standards and guidelines facilitate the Group to strengthen its ability to develop creative and artistic designs, monitor and keep a consistent style of production and ensure reasonable resources deployment).

Further, production quality is also assured by the close monitoring of each critical process by visiting consultants from the producers of the relevant project.

Digital content distribution and exhibitions

The Group imposes and maintains quality control procedures for the production of its DSR™ Digital Film Agile Encoder and DSR™ Digital Film Servers, upon which the Group's digital content distribution is based.

Although the hardware components of the Encoders and Servers of the Group are manufactured and assembled by Taiwanese suppliers on an OEM basis, the Group's technology team will carry out stringent check-ups throughout the Taiwanese suppliers' production process to ensure specifications' compliance. The Group will also produce to the Taiwanese suppliers detailed checklists of the specific components that are required for the assembling of the Encoders and Servers. These specific components (which include, inter alia, interface cards and motherboard of pre-requisite specifications) are usually sourced in Taiwan, unless there is a shortage, wherein the Group will provide such specific components to the Taiwanese suppliers to enable them to assemble the Encoders and Servers.

Once the Encoders and Servers are assembled, the Group will send its senior production engineer/manager to Taiwan to upload the software to the Encoders and Servers onto the Encoders and Servers, to ensure there is no leakage nor unauthorized disclosure of the Group's proprietary rights in the software of the Encoders and Servers.

Once the Encoders and Servers are fully assembled in Taiwan, the Group's technology team will conduct on them a detailed quality assurance process (which typically takes more than three days to complete) to ensure that they are all functioning. Should any Encoders and/or Servers fail any test during the quality assurance process, such Encoders and/or Servers will be examined and rectified, until they pass through the quality assurance process without failure. All the qualifying Encoders and Servers will then be shipped and delivered to customers.

SECURITY CONTROL

CG creation and production

The Directors consider that the intellectual property right of the Group's CG production is invaluable to the business and reputation of the Group and therefore the Group implements strict control over the access to the CG data files stored in the server of the Group at IDMT.

At present, only the senior management has full access to the CG data files created and stored in the server of the Group at IDMT. The senior management will divide the CG data files into tiny fragments before assigning them to various team heads, who will further divide the assigned fragments into frames and assign such frames to his/her team members for further modification. Such fragments and/or frames alone cannot be used to reproduce the whole CG project and in the event of leakage of such materials to third parties, the Group will be able to trace the person responsible for such leakage.

In addition, to avoid any leakage of information to third parties, none of the computers/work stations of each staff in the production department possess a floppy drive or CD writer which can otherwise allow them to duplicate or extract their CG work done onto a disk.

Digital content distribution and exhibitions

In producing the DSRTM Digital Film Agile Encoders and DSRTM Digital Film Servers of the Group, upon which the Group's digital content distribution is based, the Group imposes and maintains a high quality control procedures for the Encoders and Servers.

This is because the Group will:

- (i) firstly, only appoint Taiwanese suppliers to manufacture the hardware of the Encoders and Servers on an OEM basis; and
- (ii) only upload the software to the Encoders and Servers onto the Encoders and Servers by specially sending the Group's senior production engineer/manager to Taiwan to conduct such upload upon full assembly of the hardware of the Encoders and Servers by the Taiwanese suppliers.

SALES AND MARKETING

CG creation and production

The Directors consider that one of the most critical factors for success of a CG production studio is to establish its brand internationally through the production of high profile projects.

The Group has achieved progress in marketing through a combination of factors including management access to the international entertainment industry and the quality assured, cost-effective production mixing Chinese and international artists. Within one year of its establishment, the Group is already able to secure the full CG film production of *Thru the Moebius Strip* in collaboration with Jean “Moebius” Giraud.

The Group intends to initially focus on international contracts. So far the Group is only working on the project *Thru the Moebius Strip*. However, the management is monitoring the development of the PRC CG market very closely and will focus its efforts to move into the unexplored PRC market when it gets more mature and offers reasonable margin.

The Directors are of the view that with the well established connection of Raymond Neoh and Ms. Ellen Ling Xu, the studio manager of the Group, with various producers and production houses, the Group is in a strong position to market its production services and obtain a continuing job flow. The Group will be able to obtain business by way of referral since the Group has established its production capability in the industry.

Digital content distribution and exhibitions

During the active business pursuit period, the Group has actively participated in various international shows such as AFM and ShoWest for the promotion of the Group’s DSRTM Digital Film Agile Encoders and DSRTM Digital Film Servers. In 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 DSRTM Digital Film Servers between January 2003 and January 2004; and (ii) 1,000 DSRTM Film Servers between February 2004 and January 2008. As at the Latest Practicable Date, an aggregate of 36 DSRTM Digital Film Agile Encoders and/or DSRTM Digital Film Servers have been delivered to Adlabs.

The Group will initially focus on the PRC, India, Hong Kong and Singapore markets and has already engaged in the business of digital content distribution and exhibition in Shanghai, the PRC and Mumbai, India. When the operation of digital content distribution and exhibitions business of the Group matures, the Group may expand the business globally.

During the year ended 31st December, 2001, the Group’s turnover was entirely derived from the provision of CG training courses. For the year ended 31st December, 2002, approximately 89% of the Group’s turnover was derived from the provision of CG training courses. During the one month ended 31st January, 2003, approximately 95% of the turnover was derived from the provision of CG training. All the turnover other than the training fees were related to the DSRTM Digital Film Servers installed at cinemas in Shanghai. During each of the two years ended 31st December, 2002 and the one month ended 31st January, 2003, the five largest customers of the Group accounted for less than 30% of the Group’s turnover for the respective period. So far as is known to the Directors, none of the Directors, their associates or Shareholders who own more than 5% or more of the issued share capital of the Company has any interests in the five largest customers of the Group.

During the Track Record Period, the Group did not experience any bad and doubtful debts in respect of its turnover for the same period. Despite the foregoing, the Company has implemented a set of measures to minimize any future credit risks. In respect of its business of CG creation and production, all sales will be supported by contracts to be executed between the Group and the customers which will state the strict terms for settlement. Up to the Latest Practicable Date, the Group has not derived any income from CG creation and production. In respect of its business of digital content distribution and exhibitions, receipts relating to the share of box office takings and the franchise fee for use of digital cinema equipment are due monthly/quarterly from the cinemas and are required to be settled promptly in cash at the end of each period. The percentage sharing of box office takings will be governed by contracts made/to be made between the Group and the cinemas concerned. In respect of the provision of CG training courses, all tuition fees are collected upon acceptance of the students and before the commencement of the training courses. The tuition fees collected will then be shared with the PRC partner in Shenzhen. For the training centre in Shanghai, the PRC, the Group will be the sole operator and will be entitled full amount of the tuition fees collected. Students who have not paid all their tuition fees will not be entitled to attend the courses. The trade receivables of the Group outstanding as at 31st January, 2003 amounted to HK\$81,000 and have been fully settled.

RESEARCH AND DEVELOPMENT

The Group's technology arm, GDC Technology Limited is headed by the Group's chief technology officer, Dr. Chong Man Nang who has over 10 years of research experience. Apart from research and development in the best computing solutions for digital content distribution and exhibitions, the Group's research and development team also focuses on the development of technologies for digital-asset management and visual communication for digital cinema applications. Dr. Chong Man Nang is the inventor of Revival™, a software for restoration of old films, using his award-winning algorithms. Dr. Chong Man Nang has also been accredited with Hollywood's production such as 20th Century Fox's *Kung Pow: Enter the Fist* which was released on 2,480 screens in the US in January 2002.

The Group's technology team has developed and tested an end-to-end cost-effective digital cinema solution for the distribution of high definition signals from point to point using satellite, broadband or transportable physical storage devices. In particular, the Group has developed its proprietary technology, dubbed Digital Super Realism ("DSR"), which has been deployed in Shanghai, the PRC. The Directors intend to deploy the proprietary technology in other cities in the PRC later. The Directors believe that DSR will significantly enhance the screen entertainment experience and form the backbone for the inevitable progression of the digitalization of the film industry.

During each of the two years ended 31st December, 2002 and the one month ended 31st January, 2003, the Group had incurred research and development costs of approximately HK\$1,152,000, HK\$2,232,000 and HK\$274,000 respectively. Such research and development costs were all related to the DSR™ technology. Such research and development costs were not capitalized during the Track Record Period because the Directors considered that the commercialization of the products based on the relevant DSR™ technology was uncertain when such costs were incurred.

SOTAS OPTION

Pursuant to a deed of novation dated 28th November, 2002, made between GDC Holdings Limited (a wholly-owned subsidiary of the Company), GDC and Sotas Limited, GDC transferred the loans together with outstanding interest which it owed to Sotas Limited in an aggregate amount of HK\$7,859,616 to GDC Holdings Limited by way of novation. As the deed further provided for GDC and GDC Holdings Limited to undertake to, prior to the Listing Date, issue to Sotas Limited and/or any of its designates, share options to subscribe for new Shares in replacement of certain options previously issued by GDC to Sotas Limited, the

Company has on 5th June, 2003 granted to Sotas Limited the Sotas Option. The Sotas Option represents part of the terms of the original shareholders' loan agreement dated 25th January, 2002 and which served as an incentive to Sotas Limited to facilitate the provision of loan of HK\$6 million by Sotas Limited to the Group under that shareholders' loan agreement dated 25th January, 2002. Save as disclosed in this prospectus, the Directors confirmed that there is no other arrangement between the Group and Sotas Limited.

The Sotas Option entitles the holder thereof to purchase 504,870 Shares (representing 8,331,615 new Shares and 1.1% of Shares immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option) at an exercise price of US\$600,000 (equivalent to HK\$4,680,000), with an option period of 36 months commencing from the Listing Date and is exercisable upon 10 days prior written notice. The Sotas Option will not be exercised within 6 months after the Listing Date.

The Shares to be allotted and issued pursuant to the Sotas Option will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment. No issue of Shares will be made under the Sotas Option within the period of 6 months after the Listing Date.

The exercise of the Sotas Option is subject to the GEM Listing Committee granting listing of and permission to deal in the Shares which may fall to be issued upon the exercise of the Sotas Option. Application has been made to the GEM Listing Committee for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the Sotas Option. The Shares to be issued upon exercise of the Sotas Option will also be subject to moratorium of 12 months from the Listing Date. The exercise price per Share under the Sotas Option is approximately HK\$0.56 representing approximately 44% discount to the Issue Price. The Company intends to apply the proceeds of approximately HK\$4,680,000 to the development of the network of the digital content distribution and exhibitions segment.

Should the Sotas Option be exercised in full, there will be a dilution effect of approximately 1% on the shareholding of the Shareholders. Upon full exercise of the Sotas Option, the aggregate shareholding of Upflow Holdings Limited and Anthony Neoh would be reduced slightly from approximately 43.5% to approximately 43.0% resulting in no change of control.

INTELLECTUAL PROPERTY RIGHTS

The Group is the registrant of the domain name *www.moebiusstrip.net*. The Group has also applied for the registration of certain of its trademarks and service marks in Hong Kong. Further details in relation to the Group's intellectual property rights are set out in the section headed "Intellectual property" under the paragraph headed "Further information about the business" in appendix V to this prospectus. The Group's rights to *Thru the Moebius Strip* have not been registered in any jurisdictions.

COMPETITION

According to the Roncarelli Report 2001, there are over 8,000 facilities worldwide that are producing computer animation with sophisticated equipment and systems. There is great diversity in the size, makeup, and creative and business direction of these facilities worldwide and they operate in vastly different environments, responding to a variety of cultural and creative stimuli.

While half of all computer animation facilities are located in North America, the economic advantages offered by lower cost offshore production facilities have become increasingly attractive to budget strapped film makers and other buyers of computer animation production.

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. The Directors consider that the Group is more competitive due to its ability to capitalise on PRC high quality and lower labour cost and computer system cost as well as its efficient production pipeline which is specifically designed to cater for long-format animation production. The Directors believe that the Group's access to the much larger pool of talent and the still much lower cost base in the PRC makes it more competitive than other Hong Kong studios.

CONNECTED TRANSACTIONS

Exempt connected transactions

Financial assistance

(a) Loans from Anthony Neoh

Between 1st January, 2002 to 28th November, 2002, Anthony Neoh advanced various loans to GDC totalling HK\$9,660,783. Pursuant to a deed of novation dated 28th November, 2002 entered into between Anthony Neoh, GDC and GDC Holdings Limited, this amount was novated to GDC Holdings Limited. Between the period from 29th November, 2002 to the Latest Practicable Date, Anthony Neoh advanced various loans to the Group totalling HK\$3,206,204 (together the "Neoh Facility"). Interest shall accrue from day to day on the outstanding principal amount of the Neoh Facility at the best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum. The Neoh Facility is unsecured with no fixed repayment terms. The interest rate charged by Anthony Neoh is determined by reference to the financial position of the Group and the absence of any security or guarantee in favour of the Neoh Facility and the Directors (including the independent non-executive Directors) and the Sponsor consider that the interest rate is a normal commercial interest rate. Anthony Neoh has given an undertaking that he will not demand repayment for the Neoh Facility 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. As Anthony Neoh is the chairman of the Company, a non-executive Director and an Initial Management Shareholder, the transactions between Anthony Neoh and the Group would constitute connected transactions of the Company should the Shares be listed on GEM. The Directors confirm that the above loans were applied towards the CG production of *Thru the Moebius Strip* and as working capital of the Group.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the Neoh Facility has been provided for the benefit of the Group and is based on normal commercial terms (or better) and should therefore be exempt from reporting, announcement and independent shareholders' approval requirements under Rule 20.52(2) of the GEM Listing Rules.

(b) Counter-guarantees given by Raymond Neoh and GDC in respect of a bank loan made to the Group

On 31st October, 2002, IDMT entered into a loan agreement with the Bank of China, Shenzhen Branch pursuant to which Bank of China, Shenzhen Branch has agreed to provide a facility of RMB30,000,000 to IDMT (the "BOC Loan") for a term of two years (the "BOC Loan Agreement"). On 31st October, 2002, IDMT made a drawdown totalling RMB15,000,000. The BOC Loan is individually and separately guaranteed by GDC and CICG, which is a third party 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. The guarantee given by GDC shall be effective till two years upon the expiry of

the term of the BOC Loan (which is expected to be 30th October, 2004) whilst the guarantee given by CIGC shall be effective until IDMT has repaid all debts that has incurred under the BOC Loan. Each of Raymond Neoh and GDC has individually and separately given a counter-guarantee in favour of CIGC for the repayment of all the debts incurred by CIGC for which CIGC is liable under the guarantee given by it in respect of the BOC Loan. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CIGC (“BOC Asset Pledge”) for the repayment of all debts incurred by CIGC for which CIGC is liable under the guarantee given by it respect of the BOC Loan. The counter-guarantee given by Raymond Neoh in favour of CIGC shall be effective from the date of guarantee until the Listing Date while the counter-guarantee given by GDC and the BOC Asset Pledge in favour of CIGC shall continue to be effective until IDMT has repaid all debts it has incurred under the BOC Loan Agreement. No security nor consideration has been given by IDMT or any member of the Group to Raymond Neoh and/or GDC for giving of the counter-guarantees to CIGC.

As Raymond Neoh, Anthony Neoh, Dr. Chong Man Nang and Bright Oceans Corporation (HK) Limited, being Directors and/or Initial Management Shareholders, together hold, directly or indirectly, more than 30% of the issued share capital of GDC, GDC is an associate of them. Accordingly, GDC is a connected person of the Company and the above-mentioned guarantee and counter-guarantee given by GDC would constitute connected transactions of the Company should the Shares be listed on GEM.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the guarantee and/or the counter-guarantees given by Raymond Neoh and GDC have been provided by it for the benefit of the Company on normal commercial terms (or better). The guarantees given by GDC should therefore be exempt from reporting, announcement and independent shareholders’ approval requirement under Rule 20.52(2) of the GEM Listing Rules.

(c) *Counter-guarantee given by Raymond Neoh in respect of a bank loan made to the Group*

On 21st March, 2003, IDMT entered into a loan agreement with Shenzhen Commercial Bank (the “SCB”) pursuant to which the SCB has agreed to provide a facility of RMB30,000,000 to IDMT (the “SCB Loan”) for a term of two years (the “SCB Loan Agreement”). On 21st March, 2003, IDMT made a drawdown totalling RMB15,000,000. The SCB Loan is guaranteed by CIGC, which is a third party 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. The guarantee given by CIGC shall be effective till three years upon the expiry of the term of the SCB Loan. In addition, each of Raymond Neoh and the Company has also individually and separately given a counter-guarantee to CIGC in favour of CIGC for the repayment of all the debts incurred by CIGC for which CIGC is liable under the guarantee given by it in respect of the SCB Loan. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CIGC (“SCB Asset Pledge”) for the repayment of all debts incurred by CIGC for which CIGC is liable under the guarantee given by it respect of the SCB Loan. The said counter-guarantees given by Raymond Neoh and the Company and the SCB Asset Pledge shall continue to be effective until IDMT has repaid all debts it has incurred under the SCB Loan Agreement. No security nor consideration has been given by IDMT or any member of the Group to Raymond Neoh, the Company for giving of the counter-guarantees to CIGC.

As Raymond Neoh is a Director and an Initial Management Shareholder, the counter-guarantee given by him would constitute a connected transaction of the Company should the Shares be listed on GEM.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the counter-guarantee given by Raymond Neoh has been provided for the benefit of the Company on normal commercial terms (or better). The counter-guarantees given by Raymond Neoh should therefore be exempt from reporting, announcement and independent shareholders' approval requirement under Rule 20.52(2) of the GEM Listing Rules.

Exempt continuing connected transactions**(a) *Lease of a director's quarters***

On 26th April, 2002, GDC China Limited entered into a lease agreement with Lau Fung Sim who is the spouse of Raymond Neoh. As lessor, Lau Fung Sim leased to GDC China Limited for use by the Group as director quarter, premises located at Flat B on 4th Floor, Block 1, Grandeur Villa, No. 21 Tat Chee Avenue, Yau Yat Chuen, Kowloon, Hong Kong at a monthly rental of HK\$28,000, exclusive of service charges and management fees, for a term of two years commencing from 7th May, 2002. Grant Sherman Appraisal Limited has confirmed that the rent charged by Lau Fung Sim is within the range of the then prevailing open market rents at the date of the lease agreement. The entering into the lease agreement by GDC China Limited is on normal commercial terms and in the ordinary and usual course of business of the Group.

The amount of rental expenses paid by the Group to Lau Fung Sim for the year ended 31st December, 2002 were approximately HK\$224,000. The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the rental expenses have been charged and will continue to be charged on a fair and reasonable basis and the aggregate rental expenses shall not exceed HK\$1,000,000 for the current financial year.

(b) *Lease of staff quarters*

On 2nd October, 2002, GDC China Limited entered into a lease agreement with Anthony Neoh. As lessor, Anthony Neoh leased to GDC China Limited for use by the Group as staff quarters, premises located at Unit B, 6th Floor, Mei Fai Mansion, Nos. 110–116 Jaffe Road, Wan Chai, Hong Kong at a monthly rental of HK\$8,000, exclusive of service charges and management fees, for a term of one year commencing from 15th October, 2002. Grant Sherman Appraisal Limited has confirmed that the rent charged by Anthony Neoh is within the range of the then prevailing open market rents at the date of the lease agreement. The entering into the lease agreement by GDC China Limited is on normal commercial terms and in the ordinary and usual course of business of the Group.

The amount of rental expenses paid by the Group to Anthony Neoh for the year ended 31st December, 2002 was HK\$96,000. Previously, under another lease agreement dated 15th October, 2001 for the same property between the Group and Anthony Neoh, the amount of rental expenses paid by the Group to Anthony Neoh for the year ended 31st December, 2001 was HK\$24,000. The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the rental expenses have been charged and will continue to be charged on a fair and reasonable basis and the aggregate rental expenses shall not exceed HK\$1,000,000 for the current financial year.

CERTAIN TRANSACTIONS INVOLVING CERTAIN INITIAL MANAGEMENT SHAREHOLDERS AND GDC IN RESPECT OF THE BUSINESS OF THE GROUP**(a) *The Moebius Strip Assignment***

Moebius Strip Limited obtained the intellectual property rights of *Thru the Moebius Strip* (the “Film”) subject to an assignment dated 15th January, 2000 (the “Assignment”), executed between Moebius Strip Limited (the “Assignee”) and Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong (the “Assignors”), who are collectively the absolute, legal and beneficial co-owners of the copyright and all other rights of the Film. The consideration for the Assignment amounted to US\$300,000, which the Assignee paid to the Assignors on the same date of the Assignment. 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.

On 15th January, 2000, GDC Entertainment Limited, a wholly owned subsidiary of the Company, entered into an assignment with Moebius Strip Limited, 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, for the assignment of the copyright and all other rights in and to the Film. Jean Moebius Giraud and Arnold Gene Wong are 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. Pursuant to the assignment (which was supplemented by a supplemental agreement dated 2nd May, 2003), the consideration for the assignment involved (i) US\$60,000 (which had 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 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”, no Deferment shall be payable.

The “net profit” which forms a determinant, upon which the Deferment and the Royalty are calculated, is equivalent to all revenue which GDC Entertainment Limited derives from all rights attached to the Film 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 the Film, 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.

The assignment also provided that in the event of currency control, embargo or other circumstances which prevent remission of sums to GDC Entertainment Limited in Hong Kong, such unremitted sums, which could not be brought into account for calculation of the “net profit” will nevertheless be apportioned by GDC Entertainment Limited, at it best endeavors, to a separate bank account in the name of Moebius Strip Limited placed at its exclusive disposal. Upon such apportionment, GDC Entertainment Limited shall have no further liability to Moebius Strip Limited in respect of such apportioned and deposited sums.

As Raymond Neoh is a Director and an Initial Management Shareholder, the Moebius Strip Assignment could have been considered as a past continuing connected transaction of the Company should the Shares be listed on GEM.

On 20th June, 2003, the Group entered into a sale and purchase agreement (“Disposal Agreement”) with Raymond Neoh pursuant to which the Group agreed to acquire from Raymond Neoh his entire shareholding interest (being one-third of the total issued shareholding interest) in Moebius Strip Limited for a cash consideration of US\$100,000. Details of the Disposal Agreement are set out in the section headed “History and Development” of this prospectus. As Raymond Neoh is a Director and an Initial Management Shareholder, the subject disposal transaction could be considered as a past connected transaction of the Company should the Shares be listed on GEM. However, on 2nd July, 2003, the Group entered into a cancellation agreement with Raymond Neoh pursuant to which the Disposal Agreement was cancelled. On the same date, Raymond Neoh entered into a sale and purchase agreement with Arnold Gene Wong pursuant to which Raymond Neoh agreed to dispose of his entire shareholding interest (being one-third of the total issued shares of Moebius Strip Limited) in Moebius Strip Limited to Arnold Gene Wong for a cash consideration of US\$100,000.

Details of the above cancellation agreement and sale and purchase agreement are set out in the section headed “History and Development” of this prospectus. Given the signing of the said cancellation agreement and the sale and purchase agreement, the Assignment and the Disposal Agreement has ceased to be past continuing connected transaction and past connected transaction 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. Save as disclosed in this prospectus, the Directors confirm that there was no arrangement between (i) the Company; and (ii) Raymond Neoh and/or Arnold Gene Wong. Save as disclosed in this prospectus, Raymond Neoh confirms that he has no arrangement with Arnold Gene Wong.

(b) Interest Free Loan from GDC

On 31st March, 2003, the Company obtained an interest free loan in the amount of US\$1 million from GDC. This interest free loan, which was used by the Company to fully repay the Convertible Note (details of which are set out in the sub-section headed “Information on the Convertible Note” in this section of this prospectus), stipulated no fixed repayment period and was repayable by the Company to GDC upon GDC’s demand. This interest free loan was unsecured and backed with no guarantees.

As GDC is an associate of Upflow Holdings Limited and Raymond Neoh, a Director and Initial Management Shareholder, the aforesaid interest free loan could have been considered a connected transaction of the Company should the Shares be listed on the GEM but for its full and final repayment on the Latest Practicable Date, whereupon it has become fully terminated.

(c) Personal guarantees given by Anthony Neoh and Raymond Neoh in respect of third party loans made to the Group

On 17th October, 2001, GDC entered into an agreement with E-Talent, which is owned by Ms. Po Mei Ching, pursuant to which E-Talent advanced various loans to GDC totalling HK\$5,800,000 (the “E-Talent Facility”). E-Talent and Ms. Po Mei Ching are 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. Interest shall accrue from day to day on the outstanding principal amount of the E-Talent Facility at the best lending rate as quoted by the Standard Chartered Bank, Hong Kong from time to time plus 3% per annum. The E-Talent Facility is unsecured.

On 16th October, 2001, E-Talent entered into an agreement with Kingsway Finance (a fellow subsidiary of Kingsway Capital) pursuant to which Kingsway Finance agreed to make available to E-Talent a credit facility of HK\$5,800,000 (the “Kingsway Finance Facility”), which was used by E-Talent for on-lending to GDC under the E-Talent Facility. Each of Anthony Neoh, Raymond Neoh and Ms. Po Mei Ching

has individually and separately given an irrevocable and unconditional personal guarantee in favour of Kingsway Finance for the repayment of the Kingsway Finance Facility, which shall continue to be effective until final payment has been made. No security over the assets of the Group was granted and no consideration was/will be paid to Anthony Neoh and Raymond Neoh in respect of the personal guarantees given by them.

Pursuant to a deed of novation dated 28th November, 2002 entered into between GDC, GDC Holdings Limited and E-Talent, the E-Talent Facility together with interest accrued thereon was novated to GDC Holdings Limited. As Anthony Neoh and Raymond Neoh are Directors and Initial Management Shareholders, the aforesaid personal guarantees given by Anthony Neoh and Raymond Neoh could have been considered connected transactions of the Company should the Shares be listed on GEM but for the E-Talent Facility's full and final repayment on the Latest Practicable Date, whereupon the aforesaid personal guarantees have all become fully terminated.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the above personal guarantees have been provided by Anthony Neoh and Raymond Neoh for the benefit of the Company on normal commercial terms (or better). As such, even if the above personal guarantees were deemed connected transactions, such personal guarantees should be exempt from reporting, announcement and independent shareholders' approval requirements under Rule 20.52(2) of the GEM Listing Rules. Save as disclosed in this prospectus, the Directors confirm that there is no arrangement or agreement amongst Anthony Neoh, E-Talent, GDC Holding Limited, Kingsway Finance and Raymond Neoh.

(d) *Pledges of Shares provided by Upflow Holdings Limited and Anthony Neoh in respect of a term loan made to the Group*

On 28th March, 2003, GDC Holdings Limited, the Company's subsidiary, obtained a term loan of HK\$2,000,000 from Kingsway Finance, a fellow subsidiary of Kingsway Capital, via a loan facility letter. The term loan bears interest at the best lending rate as quoted by Standard Chartered Bank, Hong Kong from time to time plus 3% per annum and is repayable on or before 25th June, 2003 or on or before the date on which the Shares are listed on the GEM, whichever is earlier. Each of Upflow Holdings Limited, a Shareholder, and Anthony Neoh, a Shareholder and a Director, has pledged its/his entire shareholding in the Company as securities for the term loan. No security nor consideration has been given by GDC Holdings Limited or any other member of the Group to Upflow Holdings Limited and Anthony Neoh for the giving of the securities.

As Upflow Holdings Limited and Anthony Neoh are Initial Management Shareholders whilst Anthony Neoh is also a Director, the securities given by them for the term loan could have been considered connected transactions of the Company, should the Shares be listed on GEM but for the aforesaid term loan's full and final repayment on 26th June, 2003, whereupon the aforesaid securities pledges have all become fully terminated.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the securities given by Upflow Holdings Limited and Anthony Neoh have been provided for the benefit of the Company on normal commercial terms (or better) and as such, even if the above securities pledges were deemed connected transactions, they should be exempt from reporting, announcement and independent shareholders' approval requirement under Rule 20.52(2) of the GEM Listing Rules.

(e) *Advances from Raymond Neoh and Anthony Neoh*

As at 31st May, 2003, the Group had an amount due to Raymond Neoh and Anthony Neoh which were interest free and unsecured totaling HK\$734,000. As Raymond Neoh and Anthony Neoh are the Directors and Initial Management Shareholders, the above advances could have been considered connected transactions of the Company should the Shares be listed on the GEM, but for their full and final repayment, which are scheduled to take place before the Listing Date, whereupon the aforesaid advances shall all become fully terminated.

The Directors (including the independent non-executive Directors) and the Sponsor are of view that the above advances have been provided for the benefit of the Group and is based on better than normal commercial terms and even if the above advances were deemed connected transactions, they should be exempt from reporting, announcement and independent shareholders' approval requirements under Rule 20.52(2) of the GEM Listing Rules. The said advances were scheduled to be repaid before the Listing Date.

(f) *Loan from William Ka Chung Lam, Richard Yingneng Yin and Sotas Limited*

On 27th March, 2002, William Ka Chung Lam, Richard Yingneng Yin had advanced respective loans to the Group in the aggregate amounts of HK\$1,000,000 ("Loan 1") and HK\$300,000 ("Loan 2"). On 15th March, 2001 and 25th January, 2002, Sotas Limited had advanced respective loans to the Group in the aggregate amounts of HK\$1,600,000 ("Loan 3") and HK\$6,000,000 ("Loan 4"). Interest on Loans 1 and 2 shall accrue from day to day on the outstanding principal amount at the best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum. Interest on Loan 3 shall accrue from day to day on the outstanding principal amount at the best lending rate as quoted by the Standard Chartered Bank, Hong Kong from time to time plus 3% per annum. Interest on Loan 4 shall accrue from day to day on the outstanding principal amount at 10% per annum, with an additional interest of 5% per annum on any overdue principal and interest. All of Loans 1, 2, 3 and 4 are unsecured. The interest rates charged on Loans 1, 2, 3 and 4 are all determined by reference to the financial position of the Group and the absence of any security or guarantee in their favour and the Directors (including the independent non-executive Directors) and the Sponsor consider that the interest rates are normal commercial interest rates.

As William Ka Chung Lam, Richard Yingneng Yin and Sotas Limited are all Initial Management Shareholders, Loans 1, 2, 3 and 4 could have been considered connected transactions of the Company should the Shares be listed on the GEM, but for Loan 2's full and final repayment (with accrued interests), which is scheduled to take place before the Listing Date, whereupon Loan 2 shall become fully terminated, and but for Loans 1, 3 and 4's full and final repayment (with accrued interests) on the Latest Practicable Date, whereupon Loans 1, 3 and 4 have all become fully terminated.

The Directors (including the independent non-executive Directors) and the Sponsor are of view that Loans 1, 2, 3 and 4 have been provided for the benefit of the Group and are based on normal commercial terms (or better) and even if Loans 1, 2, 3 and 4 were deemed connected transactions, they should be exempt from reporting, announcement and independent shareholders' approval requirements under Rule 20.52(2) of the GEM Listing Rules.

COMPETING INTEREST

As at the Latest Practicable Date, Forward Strategic had approximately 21.4% equity interest in DCDC Limited (a BVI company), which in turn had a 100% equity interest in DCDC. DCDC is principally engaged in CG production, in particular 3D animation in Hong Kong. As at the Latest Practicable Date and to the best of the Directors' awareness, the registered shareholders of the remaining 78.6% equity interest in DCDC Limited are CityU Enterprises Limited (as to approximately 27%); Famemark Limited (as to approximately 20%); Cybertronic Co. Ltd (as to approximately 21.1%) and Interform Assets Limited (as to approximately 10.5%). CityU Enterprises Limited, Famemark Limited, Cybertronic Co. Ltd and Interform Assets Limited are 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. Forward Strategic is a wholly-owned subsidiary of GDC the shareholders of which are as follows:

Name of Shareholder	Shareholding in GDC
<i>Initial Management Shareholders</i>	
Upflow Holdings Limited	32.4%
Anthony Neoh	18.9%
Chong Man Nang	1.3%
Bright Oceans Corporation (HK) Limited	3.1%
Richard Yingneng Yin	1.3%
Forward Strategic	9.3%
Sotas Limited	8.4%
Perfect Brilliant Limited	4.4%

79.1%

Name of Shareholder	Shareholding in GDC
<i>Other Shareholders</i>	
Cyber Prime Developments Limited	6.3%
Christopher Paul Neoh	1.6%
Financial Outreach Limited	2.5%
Ajitkumar Chandubhai Patel	1.6%
Future United Investments Limited	1.6%
SRI Group Limited	2.5%
Kanwin Corporation	0.6%
Marketeer Management Limited	4.2%

20.9%

100.0%

To the best knowledge of the Directors, the existing directors of DCDC are Mr. Chai Hong Nin, Ms. Choi Chiu Man Kay, Wendy, Dr. Lee Siu Lung, James, Mr. Ng Kam Ming, James, Dr. Wong Chung Kiu and Mr. Wong Hon Yee. GDC and its shareholders do not participate in the management of DCDC. The board of GDC comprising Raymond Neoh, Anthony Neoh and David Deng Wei who are Directors and Initial Management Shareholders, has confirmed that GDC will remain a passive investor in DCDC after the listing of the Shares on GEM, and will not have a representative in the board of DCDC. The Directors confirmed that there has not been and will not be any transactions between the Group and DCDC. The Directors further confirmed that neither the directors nor the shareholders of GDC have the intention to inject GDC's 21.4% interest in DCDC into the Group.

Save as disclosed above, none of the Directors, Significant Shareholders and Initial Management Shareholders has an interest in any business which competes or may compete with the business of the Group.

INFORMATION ON THE CONVERTIBLE NOTE

On 27th November, 2002, the Group entered into a deed of novation with GDC and Middle Asia Limited as set out in material contract (i) in the paragraph headed “Summary of material contracts” in appendix V to this prospectus, whereby, amongst other terms, the Group agreed to take over the benefits and obligations of GDC under the Middle Asia Subscription Agreement, by way of novation, as if the Group had been named as a party thereto in substitution for GDC. The Convertible Note matured on 1st February, 2003 and was subsequently repaid on 28th March, 2003, and the followings are for information purpose only.

The principal terms of the Convertible Note are as follows:

Principal amount	:	HK\$7,800,000
Interest	:	1.5% per annum
Maturity date	:	1st February, 2003
Conversion period	:	(i) At any time from 1st August, 2002 to 1st February, 2003 at the discretion of the holder of the Convertible Note; and (ii) the Convertible Note will be compulsorily converted into Shares on the business day immediately follows the day on which the Group provides written confirmation showing that the Company has obtained approval from the Stock Exchange for the listing of the Shares on GEM
Conversion price	:	HK\$31.2 per Share (subject to adjustment arising from an alteration of the nominal value of the shares of GDC Holdings Limited as a result of consolidation, subdivision or reclassification or occurrence of one or more other dilutive events/circumstances); however, the number of shares to be converted should represent not less than 1% of the enlarged issued share capital of the Company
Shares issued upon conversion	:	approximately 7,800,000 Shares, being not less than 1% of the enlarged issued share capital of the Company after completion of the New Issue and Capitalization Issue but before the exercise of the Sotas Option
Redemption	:	the outstanding amount of the Convertible Note will be redeemed by the Company at 104% of the outstanding principal amount together with accrued interest thereon on 1st February, 2003
Transferability	:	The Convertible Note can be assigned or transferred in respect of a minimum of HK\$1 million of its outstanding principal amount, but not otherwise