INDEBTEDNESS

Borrowings

As at the close of business on 31st May, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had total borrowings of approximately HK$93,366,000, details of which are set out as follows:

	At 31st May, 2003 *HK$'000*
Loans from Shareholders	20,467
Other loans	10,500
Advances from Directors	734
Advances from GDC	7,851
Other advances	9,023
Bank overdrafts	2,100
Long-term bank loans	28,286
Obligations under finance leases	14,405
	93,366

The loans from Shareholders and other loans are unsecured except for an amount of HK$2,000,000 due to Kingsway Finance and the loan from E-Talent of HK$5,800,000.

(i) Upflow Holdings Limited, a Shareholder and Anthony Neoh, a Shareholder and Director, have pledged their entire shareholding in the Company as securities for the loan of HK$2,000,000 from Kingsway Finance. But, as the aforesaid loan of HK$2,000,000 from Kingsway Finance (plus accrued interests) was fully and finally repaid on 26th June, 2003, the aforesaid securities pledges of Upflow Holdings Limited and Anthony Neoh have all become fully terminated.

(ii) Pursuant to an agreement between E-Talent and Kingsway Finance, Kingsway Finance agreed to make available to E-Talent a credit facility of HK$5,800,000 ("Kingsway Finance Facility"), which was used by E-Talent for on-lending to GDC. Such on-lending loan was novated to the Company on 28th November, 2002. Each of Anthony Neoh and Raymond Neoh and the ultimate beneficial owner of E-Talent has given an irrevocable and unconditional personal guarantee in favour of Kingsway Finance for the repayment of the Kingsway Finance Facility. The guarantee shall continue to be effective until final payment has been made. The repayment of the on-lending loan by the Company to E-Talent was made on the Latest Practicable Date.

Advances from Directors, GDC and other advances are unsecured. Other advances represent advances from Shanghai Xin Chang Ning and Zhanjiang Dong Hai, 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.

The bank overdrafts are secured by a time deposit placed with the bank of approximately HK$3,120,000.

The long-term bank loans which are for a term of two years from their respective dates of the loan agreements are guaranteed by GDC, the Company 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. CICG provided the guarantees for a fee.

Securities and guarantees

As at 31st May, 2003, the Group had total banking facilities of HK$59,472,000, comprising a loan facility of approximately HK$28,286,000 (equivalent to RMB30,000,000) from Bank of China, Shenzhen Branch ("BOC") (out of which RMB15,000,000 had been drawn down), a loan facility of approximately HK$28,286,000 (equivalent to RMB30,000,000) from Shenzhen Commercial Bank ("SCB") (out of which RMB15,000,000 had been drawn down) and an overdraft facility of HK$2,900,000, which were granted under the following securities:

(i) The loan facility from BOC is guaranteed by GDC and CICG. The guarantee given by GDC shall be effective till two years upon the expiry of the term of the loan from BOC in October 2004, whilst the guarantee given by CICG shall be effective until IDMT has repaid all debts that has incurred under the loan agreement. Each of Raymond Neoh and GDC has given an individual and separate counter-guarantee in favour of CICG for the repayment of all the debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the said loan facility. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CICG ("BOC Asset Pledge") for the repayment of all debts incurred by CICG for which CICG is liable under the guarantee given by it respect of the said loan facility. The counter-guarantee given by Raymond Neoh shall be effective from the date of guarantee until the Listing Date while the counter-guarantee given by GDC and the BOC Asset Pledge provided by GDC China Limited shall continue to be effective until IDMT has repaid all debts it has incurred under the relevant loan agreement.

(ii) The loan facility from SCB is guaranteed by CICG and will be expired on 21st March, 2005. The guarantee given by CICG shall be effective for three years after the expiry of the loan facility from SCB. Each of Raymond Neoh and the Company has given an individual and separate counter-guarantee in favour of CICG for the repayment of all the debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the said loan facility. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CICG ("SCB Asset Pledge") for the repayment of all debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the said loan facility. The said counter-guarantees given by Raymond Neoh and the Company and the SCB Asset Pledge provided by GDC China Limited shall continue to be effective until IDMT has repaid all debts it has incurred under the relevant loan agreement. In connection with the said loan facility, the Directors confirm that arrangements will be made with a view to releasing the said counter-guarantee given by Raymond Neoh following the listing of the Shares on GEM.

(iii) The overdraft facility is secured by a pledge of time deposit of approximately HK$3,120,000.

On 30th March, 2003, IDMT resolved that the aggregate amount drawn down from the aforesaid respective loan facilities from BOC and SCB shall at no time exceed RMB30,000,000 (equivalent to HK$28,286,000) which is equal to the maximum amount agreed to be guaranteed by CICG according to the Directors' understanding and resolutions. Accordingly, the Group had no unutilised loan facilities available from BOC and SCB as at 31st May, 2003.

Contingent liabilities

As at 31st May, 2003, the Group had no material contingent liabilities.

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding any mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or finance leases and hire purchase contracts or any guarantees or other material contingent liabilities outstanding as at the close of business on 31st May, 2003.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness of the companies comprising the Group since 31st May, 2003 up to and including the Latest Practicable Date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st May, 2003, the Group had net current assets of approximately HK$17,418,000. The current assets comprised production work in progress of approximately HK$54,415,000, trade receivables of approximately HK$19,000, advances to a related company of a Shareholder of approximately HK$7,967,000, prepayments, deposits and other receivables of approximately HK$3,792,000 and bank balances and cash of approximately HK$4,441,000. The current liabilities comprised current portion of obligations under finance leases of approximately HK$6,407,000, other payables and accrued charges of approximately HK$8,701,000, advances from Directors of approximately HK$734,000, loans from Shareholders and other loans totalling HK$18,400,000, amount due to GDC of approximately HK$7,851,000, other advances from Shanghai Xin Chang Ning and Zhanjiang Dong Hai totalling HK$9,023,000 and bank overdrafts of approximately HK$2,100,000.

Commitments

As at 31st May, 2003, the Group had capital commitments for fixed assets of HK$247,000 and commitment for equity investment of US$1,000,000 (equivalent to approximately HK$7,800,000). Pursuant to the agreement dated 16th December, 2002 entered into between the Group and Adlabs, Adlabs shall sell and the Group shall purchase 3,200 shares of Adlabs D2C Apllications Pvt Ltd, a wholly-owned subsidiary of Adlabs, representing an 8% equity interest in Adlabs D2C Apllications Pvt Ltd. The said sale and purchase of 3,200 shares is conditional upon, among other things, the successful listing of the Company's Shares on GEM and the consideration thereof shall be US$1,000,000.

Debt Securities

As at 31st May, 2003, the Group had no debt securities.

Borrowings and banking facilities

The Group generally finances its operations with loans from Shareholders, other loans, finance leases and banking facilities provided by its principal bankers and finance lease company in Hong Kong and the PRC.

As at 31st May, 2003, the total banking and loan facilities available to the Group, including those facilities from banks, finance lease company, Shareholders and their related parties and E-Talent, amounted to approximately HK$76,558,000, of which HK$75,758,000 were utilised.

TRADING RECORD

The following is a summary of the consolidated results of the Group for the Track Record Period and the one month ended 31st January, 2002 which have been extracted from the accountants' report of the Group set out in appendix I to this prospectus. The consolidated results have been prepared on the basis of preparation set out in the same accountants' report. The calculation of loss per Share takes no account of the Capitalization Issue to be effected after the date of this prospectus.

	Year ended 31st December,		One month ended 31st January,	
	2001	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover *(Note 1)*				
Training fees	2,240	2,052	199	228
Box office receipts from distribution of digital motion pictures	—	151	—	—
Rental income from equipment leasing	—	55	—	6
Franchise fee from digital cinema for use of equipment	—	48	—	6
	2,240	2,306	199	240
Cost of sales	(3,069)	(3,228)	(235)	(286)
Gross loss	(829)	(922)	(36)	(46)
Other revenue	12	22	2	—
Administrative expenses	(7,657)	(11,644)	(736)	(1,145)
Other operating expenses, net	(1,761)	(3,089)	(221)	(253)
Operating loss	(10,235)	(15,633)	(991)	(1,444)
Finance costs	(82)	(1,796)	(21)	(446)
Loss for the year/period	(10,317)	(17,429)	(1,012)	(1,890)
Loss per Share *(Note 2)*	(25.79 cents)	(43.57 cents)	(2.53 cents)	(4.73 cents)

Notes:

1. During the Track Record Period and the one month ended 31st January, 2002, all of the Group's turnover was derived in the PRC.

2. The calculation of loss per Share is based on the consolidated loss for the year/period of approximately HK$10,317,000 and HK$17,429,000 for the years ended 31st December, 2001 and 2002 and HK$1,012,000 and HK$1,890,000 for the one months ended 31st January, 2002 and 2003 respectively, and on the number of 40,000,000 Shares deemed to be in issue since 1st January, 2001.

MANAGEMENT DISCUSSIONS AND ANALYSIS

For the year ended 31st December, 2001

Turnover

During the year, the Group recorded a total turnover of HK$2,240,000, which was derived entirely from tuition fees from CG training courses held in Shenzhen. This amount was related to the tuition fees from 150 students from the first year course which started in November 2000, and 120 students from the second year course which started in September 2001. The tuition fees from CG training courses of the Group was charged at RMB15,000 per student per course.

No turnover was recorded from either the CG creation and production business or the digital content distribution and exhibitions business during the year.

Cost of sales

During the year, the Group's cost of sales was approximately HK$3,069,000 which mainly comprised depreciation charge of approximately HK$1,427,000 on computer equipment used for CG training, staff costs of the CG training department of approximately HK$762,000 and other direct costs such as attributable rental and utilities expenses for the CG training center in Shenzhen.

Gross loss

The Group incurred a gross loss on CG training business for the year ended 31st December, 2001 as the Group aims to secure a pool of dedicated, high quality CG production talent by way of offering CG training courses.

Other revenue

During the year, the Group's other revenue was approximately HK$12,000 which represented interest income received by the Group.

Administrative expenses

The Group incurred administrative expenses totalling HK$7,657,000. The key components of administrative expenses include:

(a) staff costs of approximately HK$3,146,000 which comprised emoluments paid to an ex-executive director of the Group (Chong Man Nang) and staff for executive and administration function;

(b) travelling expenses of approximately HK$763,000 which were incurred for business trips to US, Europe and the PRC for soliciting and negotiation of new projects for the expansion of the digital content distribution and exhibitions business; and

(c) other administrative expenses mainly comprised depreciation for computer equipment, telecommunications expense and other office expenses incurred for printing, cleaning, security and motor vehicle.

Other operating expenses

During the year, the Group incurred other operating expenses of approximately HK$1,761,000, which mainly comprised research and development costs of approximately HK$1,152,000 for digital content distribution and exhibitions business relating principally to the working models of digital film server and encoder, for an end-to-end solution for digital cinemas.

Finance costs

During the year, the Group incurred finance costs of approximately HK$82,000 for interest expenses on finance leases contracts in respect of certain of the Group's computer equipment in Shenzhen.

For the year ended 31st December, 2002

Turnover

During the year, the Group recorded total turnover of HK$2,306,000 which was derived from (i) tuition fees from CG training course of approximately HK$2,052,000 (which related to 120 students from the second year course which started in September 2001 and 150 students from the third year course which started in September 2002) and (ii) share of box office receipts from the distribution of digital motion pictures at Shanghai Paradise and the Grand Theatre of approximately HK$151,000. In addition, franchise fee of HK$48,000 for the use of equipment and rental income of HK$55,000 from equipment leasing were received from Shanghai Paradise and the Grand Theatre respectively.

The total turnover of HK$2,306,000 represented an increase of approximately 3% when compared with the turnover of HK$2,240,000 in 2001. The increase in the Group's turnover was primarily due to the commencement of digital content distribution and exhibitions business in 2002, which was slightly compensated by the decrease in tuition fee income recognized during the year.

Cost of sales

During the year, the Group's cost of sales was approximately HK$3,228,000 which mainly comprised depreciation charge of approximately HK$1,652,000 on computer equipment used for CG training and digital film encoders and servers for digital cinemas, staff costs for the CG training department of approximately HK$532,000 and other direct costs such as attributable rental and utilities expenses for the CG training center in Shenzhen. The increase in the Group's cost of sales of approximately 5% was primarily due to the increase in depreciation charge for digital film encoders and servers at the two cinemas in Shanghai which were newly installed in the middle of 2002.

Gross loss

The Group incurred a gross loss on CG training business for the year ended 31st December, 2002 as the Group's business was still under development phase.

Other revenue

During the year ended 31st December, 2002, the Group's other revenue was approximately HK$22,000, which represented interest income received by the Group.

Administrative expenses

The Group incurred administrative expenses of approximately HK$11,644,000. The key components of administrative expenses include:

(a) staff costs of approximately HK$4,829,000 which comprised emoluments paid to an ex-executive director of the Group (Chong Man Nang) and salaries and wages for finance and administration staff. The increase in staff costs was due to the hiring of two senior finance and administration staff in Hong Kong office and Singapore office and four administration staff in IDMT during 2002.

(b) travelling expenses of approximately HK$1,668,000 for business trips which included trips to US, Europe and the PRC for the expansion of the digital content distribution and exhibitions business.

(c) other administrative expenses mainly comprised depreciation for computer equipment, telecommunications expense and other office expenses incurred for printing, cleaning, security and motor vehicle. The increase in general administrative expenses is in line with the increase in business activities in 2002.

Other operating expenses

During the year ended 31st December, 2002, the Group incurred other operating expenses of approximately HK$3,089,000, representing an increase of 75% over HK$1,761,000 for the previous year ended 31st December, 2001. The operating expenses for the year ended 31st December, 2002 mainly comprised research and development costs for digital content distribution and exhibitions of HK$2,232,000. The increase reflected the strengthening of the research and development department through recruitment of further technical engineers (from 4 to 6) and a sale manager from Singapore, in anticipation of exhibitions and trade shows for cinema operators to be held in late 2002 and early 2003 in the US.

Finance costs

During the year, the Group incurred finance costs totaling approximately HK$1,796,000 which comprised interest expense on finance leases of HK$828,000; interest expenses of HK$464,000 on loans from Shareholders, other loans and Convertible Note novated to the Group in November 2002 pursuant to the reorganization; interest expense on bank loan granted by BOC in October 2002 and amortization of related loan guarantee fee totaling HK$192,000; and premium on redemption of Convertible Note of HK$312,000 which was fully redeemed in March 2003.

For the one month ended 31st January, 2003

Turnover

During the one month ended 31st January, 2003, the Group recorded a total turnover of HK$240,000 which comprised (i) tuition fees from CG training course of HK$228,000, (ii) franchise fee of approximately HK$6,000 from digital cinema for use of equipment, and (iii) rental income of approximately HK$6,000 from equipment leasing.

The total turnover of HK$240,000 represented an increase of approximately 21% when compared with the turnover of HK$199,000 for the corresponding period in 2002. The increase in the Group's turnover was primarily due to the increase in the number of students of the CG training courses organised by the Group. In addition, the Group received franchise fee and rental income on the servers and encoders installed in mid 2002 from Shanghai Paradise and the Grand Theatre respectively.

Cost of sales

During the one month ended 31st January, 2003, the Group's cost of sales was approximately HK$286,000, representing an increase of approximately 22% as compared to that of the corresponding period in 2002. The increase was primarily due to the depreciation on the newly installed DSR™ Digital Film Encoders and Servers at the two cinemas in Shanghai which were installed in mid 2002.

Gross loss

The Group incurred a gross loss of HK$46,000 for the one month ended 31st January, 2003.

Administrative expenses

The Group incurred administrative expenses totalling HK$1,145,000. The key components of administrative expenses include:

(a) staff costs of approximately HK$498,000; and

(b) other administrative expenses mainly comprised depreciation for computer equipment, telecommunications expenses and other office expenses incurred for printing, cleaning, security and motor vehicle.

The increase in the Group's administrative expenses when compared with the corresponding period in 2002 was mainly because of the hiring of two senior finance and administration staff in Hong Kong and Singapore office and four administrative staff in IDMT during 2002, and the payment of consultancy service fees in relation to the digital content distribution and exhibitions business.

Other operating expenses

During the one month ended 31st January, 2003, the Group incurred other operating expenses of approximately HK$253,000 which mainly comprised research and development costs, representing an increase of approximately 14% over HK$221,000 for the corresponding period in 2002.

The slight increase in the Group's other operating expenses when compared with the corresponding period in 2002 was due to the increase in the number of engineers employed for the digital content distribution and exhibitions business.

Finance costs

During the one month ended 31st January, 2003, the Group incurred finance costs of approximately HK$446,000, representing approximately 21 times of HK$21,000 for the corresponding period in 2002, which comprised interest expense on finance leases of HK$115,000; interest expenses totalling HK$224,000 on loans from Shareholders, other loans and Convertible Note novated to the Group in November 2002 pursuant to the Reorganization; interest expense on bank loan granted by BOC in October 2002 and amortization of related loan guarantee fee totalling HK$107,000.

Taxation

No Hong Kong profits tax was provided during the Track Record Period as the Group had no estimated assessable profits arising in or deriving from Hong Kong.

IDMT has been granted tax exemption from income tax for two years starting from the first year of profitable operations after setting off accumulated losses brought forward, followed by a 50% reduction in income tax for the next three years. IDMT was still under the tax holiday during the Track Record Period.

PROPERTY INTERESTS

As at the Latest Practicable Date, properties leased by the Group are situated at the properties as set out in appendix II to this prospectus. The Group does not own any real properties.

Grant Sherman Appraisal Limited, an independent valuer, has valued the property interests of the Group as of 30th April, 2003 as no commercial value. The text of the letter and the valuation certificate of Grant Sherman Appraisal Limited are available for inspection as set out in appendix II to this prospectus.

DIVIDENDS

The Directors do not anticipate paying dividends in the foreseeable future. The Directors anticipate that all earnings in the foreseeable future will be retained to finance the continuing development of its business. However, future dividends, if any, will be declared or paid at the discretion of the board of Directors and will depend upon, among other things, the Group's operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the board of Directors may deem relevant.

WORKING CAPITAL

Taking into account the internal generated funds, the available banking facilities, the availability of equipment leasing financing, the net proceeds from issuance of new Shares prior to completion of the New Issue and the estimated net proceeds from the New Issue, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

As at 31st January, 2003, the Company had reserves representing contributed surplus and deduction of share issuance costs of approximately HK$5,027,000. Under the Companies Act, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is prepared based on the consolidated net assets of the Group as at 31st January, 2003 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus, and adjusted as described below:

	HK$'000
Consolidated net tangible assets of the Group as at 31st January, 2003	3,511
Unaudited loss of the Group for the four months ended 31st May, 2003 based on unaudited consolidated management accounts of the Group	(7,589)
Allotment of Shares to Pre-Listing Investors *(Note 1)*	38,696
Estimated net proceeds of the New Issue *(Note 2)*	57,765
Adjusted net tangible assets	92,383
Adjusted net tangible asset value per Share *(Note 3)* (based on 780,000,000 Shares in issue and to be issued as mentioned herein)	11.84 cents

Notes:

1. On 25th and 26th June, 2003, 945,311 Shares and 2,302,681 Shares were allotted to Pre-Listing Investors at an aggregated consideration, net of commission, of approximately HK$38,696,000.

2. The estimated net proceeds of the New Issue referred to in this section represent the estimated gross proceeds of the New Issue of HK$66,300,000 less the estimated total share issuance costs of HK$13,000,000 as adjusted for the share issuance costs of HK$4,465,000 which has been accounted for as a deduction from equity in the consolidated accounts of the Group as at 31st January, 2003 (note 25 in the section headed "Notes to the financial information" in the accountants' report in appendix I to this prospectus).

3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section but it takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and/or the Sotas Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed "Resolutions of the Shareholders passed at the Company's special general meeting held on 18th July, 2003" in appendix V to the prospectus.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Group has not advanced any money to any entity which exceeded 25% of the Group's audited net tangible assets, has not provided any financial assistance and guarantees to affiliated companies which exceeded 25% of the Group's audited net tangible assets, has not made any pledge over its shares by its controlling shareholder to secure debts, guarantees or support of other obligation of the Group, and has not entered into any loan agreements imposing specific performance obligations on the controlling shareholder, the Directors are not aware of any circumstances which give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has not been any material adverse change in the financial or trading position or prospects of the Group since 31st January, 2003, the date to which the latest consolidated financial statements of the Company were made up.

FOREIGN EXCHANGE RISK

The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the Track Record Period. The Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

The Group has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuations for the Track Period Period. As at 31st May, 2003, the Group did not have any outstanding hedging instruments.