

## OVERALL BUSINESS OBJECTIVE

The overall business objective of the Company is to become a leader in the CG creation and production and digital content distribution and exhibition industry in Asia. The Directors believe that the Group is in a unique position having access to the lucrative international CG production market and the unexplored PRC market, both of which can offer high profit potential. In achieving the said business objectives of the Company, the Directors may from time to time pursue opportunities to develop the Group's businesses through acquisition, strategic alliances, joint ventures and/or co-operative arrangements. The Directors also believe that the Company's management team has a unique combination of skills, experiences and contacts to address the operating market and regulatory characteristics in which the Group principally operates and have access to the international market.

## BUSINESS STRATEGIES

To achieve the Company's overall business objective, the Directors have formulated the following business strategies in respect of the Group's business segments of CG creation and production, digital content distribution and exhibitions and provision of CG training courses.

### (i) CG creation and production

*Enhance the Group's international recognition with a pipeline of high profile production*

Parallel to building a critical mass of digital artists, the Group has secured a pipeline of high profile international CG production: the full CG film *Thru the Moebius Strip* in collaboration with Jean Moebius Giraud. The Group has also reached understandings and is in the process of finalising the terms of the relevant agreements with WAMC, Inc. for the co-productions of:

- *The New Adventures of Raggedy Ann & Andy*, a CG animated series adapted from a collection of children's books with characters written and created by Johnny Gruelle, the American original author. The production will initially consist of a series of 26 episodes, and a possible second series of another 26 episodes, each of 11 minutes and 30 seconds in length.
- *Thru the Moebius Strip*, a CG animated television series adapted from the film *Thru the Moebius Strip*, a science fiction/fantasy epic story, which is an original concept and the original design of a French artist Jean Moebius Giraud. The production will consist of a series of 13 episodes and a possible second series of another 13 episodes, each of half an hour in length.
- *The Eyes of the Dragon*, a feature film adapted from a novel written by Stephen King and is of a "humor and action" nature.

Up to the Latest Practicable Date, no formal agreement with WAMC, Inc. has yet been entered into. The Directors believe that after the releases of these productions, the Group will become one of the few CG studios that are capable of undertaking these technically demanding projects. The Directors also believe that the Group is able to offer cost efficiency on comparable standard of product, when compared with mature markets such as those offered by companies in the US. The Group is in the final stage of negotiation with an international distributor of *Thru the Moebius Strip* for worldwide distribution except for North America, Japan and the PRC. The Group intends to source other reputable distributors for the North American and Japanese markets and undertake to distribute the film in China.

### *Establish a merchandising arm*

The Directors believe that the revenue generated from the merchandising rights of film-related intellectual property is one of the most lucrative parts of film production. The Group has all the intellectual property rights related to *Thru the Moebius Strip* and has begun to formulate international marketing plan for the merchandising and computer games development opportunities of the film (as elaborated in next section). The Group will establish a merchandising arm and appoint third party merchandising agents to explore similar merchandising opportunities for future productions.

The Group has designed a large number of merchandises based on the characters in *Thru the Moebius Strip*. As the Group has maintained active participation in international licensing shows such as merchandising shows in New York, its intention is to utilize such exposure in support of its future plan to form a merchandising arm in the second half of 2003.

### *Operate a game development and publication base*

As the on-line gaming industry is growing rapidly in the PRC and Taiwan, the Group established a game development team in December 2002, which has so far developed a game engine and web engine for an on-line gaming platform. In addition, the Group is preparing a planned launch of an online game based on *Thru the Moebius Strip* for the Greater China market in early 2004 and is looking into licensing Korean and Japanese games which it can localize. Up to the Latest Practicable Date, no agreement in respect of licensing games has yet been entered into.

The Group is currently in discussion for business co-operation with Equinox, a privately owned California games development company involved in the development of console games for about eight years. Equinox has recently completed the development of the Spyro, a PlayStation 2 console game. The Group intends to work with Equinox on further development of on-line gaming platform.

### *Operate a magazine and comics base*

Given the Group's CG and art production capacity, the Group has established a magazine publication team with the intention to publish a printed and an e-version magazine focusing on topics which include CG, games and digital cinemas.

The Group's storyboard department consists of skilled comics artists led by experienced artists and it is the Group's intention to publish comics and comics strips based on the storyboards produced in the Group's studios.

### *Develop further intellectual property in conjunction with international partners*

The Directors believe that the Group's partnership with David Kirschner, which the Group will establish via a special purpose vehicle, will enable it to develop deeper contacts in the international film industry. In conjunction with David Kirschner and others, the Company intends to develop further film projects in which it will have a substantial intellectual property interest including, but is not limited to, merchandising rights.

### (ii) Digital content distribution and exhibitions

#### *Market the Group's end-to-end digital cinema solution*

The Group's technology team has developed and commercially tested an end-to-end digital cinema solution that is cost effective and has higher specifications than certain existing systems in the market. The Group's DSR<sup>TM</sup> Digital Film Servers possess more colour processing capability and are of higher image resolution than HDTV spatial resolution. The Group has commenced to market the system in the PRC (such as the cities of Shanghai and Beijing) and in Asia Pacific markets (such as India, Hong Kong and Singapore) since February 2002, and will expand its marketing effort to the global markets at a later stage.

#### *Maintain quality and continue to enhance profit margin by lowering cost*

The Group will continue to closely control and monitor the hardware components manufactured by its suppliers in Taiwan on an OEM basis. The Group will set up a dedicated quality control team to closely liaise with the manufacturers and to ensure that the hardware and the software components meet the stringent requirements by customers.

With the orders on hand from customers, the Group is able to systematically schedule delivery of hardware components and to negotiate volume discounts which would translate into better profit margins.

#### *Further penetrate the PRC market, initially in key cities such as Shanghai and Beijing*

The Company has already entered into agreements with 2 cinema operators in Shanghai, the PRC for supply of digital projection and playback equipment, whereby the Group is entitled to a share of the box office and screen advertising receipts and a fixed return for the equipment. Currently, the Group is negotiating with other cinemas in the PRC for similar arrangement. As a result of the good response from the Group's first ever commercial showing of the Chinese movie, *The Missing Gun* (“尋槍”), there is a continuing stream of inquiries from cinema owners in the PRC. As a result, the Directors believe that the Group is well-positioned to lay a digital distribution network in the PRC. In addition to the Group's own efforts, it may work with the CFG, with which the Group has signed a legally binding memorandum of understanding to equip 500 screens in the PRC with digital projection and playback equipment for a period of four to five years. Up to the Latest Practicable Date, no terms were concluded further to the aforesaid memorandum of understanding between the CFG and the Group. Up to the Latest Practicable Date, no digital cinema equipment has yet been equipped under such memorandum of understanding.

#### *Penetrate the Asia Pacific digital cinema markets, in particular, in India, Hong Kong and Singapore*

The Group will initially target India, Hong Kong and Singapore markets where the Directors believe that cinema owners and advertisers are beginning to consider digital distribution solutions. The Group will start with a marketing campaign in these countries and will proceed with the establishment of 2 to 3 demonstration projects in the fourth quarter of the year 2003.

#### *Expand into the US market, initially in California*

After the success at ShoWest 2003, the Group's technology team is planning to expand into the US market and the Group is negotiating with Boeing Inc for possible placement of orders for DSR<sup>TM</sup> Servers. Up to the Latest Practicable Date, no terms were concluded between Boeing Inc and the Group.

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*Develop upstream and downstream products, including development of a network-based digital entertainment system for the seamless delivery of movies, games, and other entertainment content, employing the Group's compression, cryptography, delivery and distribution technologies*

Parallel to the roll out of digital cinema, the Company plans to establish joint venture entities that focus on development of upstream and downstream products relating to digital film production, digital post production, advertising, management and organization of digital broadcasting of sports, cultural, information and education events. The upstream and downstream products include a network-based digital entertainment system for the seamless delivery of entertainment content, employing the Group's compression, cryptography, delivery and distribution technologies. This vertical integration approach will ensure the supply of quality digitalized film and non-film content to the digital cinema chain.

*Conduct further research, enhancement and development of higher technical specifications for digital cinema technology*

In addition to bringing existing systems to higher specifications and further lowering manufacturing costs, the Group's research and development team has begun to produce interactive digital cinema prototypes. The team is developing such interactive system using wireless local area network which may have multiple applications such as electronic auction.

Parallel to the introduction of digital cinemas into the PRC, the Group will also focus on the sourcing, digitalization and organization of film and alternative content for the digital cinema distribution channel. In addition, the Group is in the process of developing derivative products, making use of its compression and cryptography technologies to build a network-based entertainment system for holiday resorts and cruise ships.

### **(iii) Provision of CG training courses**

*Continue to organise training courses for digital artists in the PRC, extending to South East Asia, initially Malaysia, which will serve the dual purposes of (i) contribution of revenue and (ii) ensuring a continuous supply of qualified digital artists for the Group's CG projects*

Training will remain an integral part of the Company's development to ensure the supply of digital artists and to build the CG industry in the PRC. The Group will continue to provide CG training courses for upwards of 150 digital artists every nine months at the facilities of IDMT in Shenzhen and a further approximately 160 digital artists in Shanghai annually. The Group plans to franchise its training courses to other countries in Asia, initially Malaysia.

## **IMPLEMENTATION SCHEDULE**

The Company's implementation plans for the remaining period of the current financial year ending 31st December, 2003 and the two years thereafter ending 31st December, 2005 are set out below. Investors should note that such implementation plans and their respective schedules times for attainment are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set out in the section headed "Risk factors" of this prospectus. The accuracy, attainability, persistence and/or the reliability of the Directors' evaluation of the market potential and the business plans are dependent on the validity of these bases and assumptions. Any failure/invalidity of these bases and assumptions may result in any or all of the following future plans being unable to be achieved within the scheduled time or at all. The Company will also continue to monitor market responses and may have to make adjustments to such plans accordingly.

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Period I: From the Latest Practical Date to 31st December, 2003

CG creation and production	Digital content distribution and exhibitions	Provision of CG training courses
Complete <i>Thru the Moebius Strip</i> production and premier	Supply digital cinema equipment to Adlabs	Set up CG training school in Shanghai and recruit students
Sign up a US distributor for <i>Thru the Moebius Strip</i>	Sign up around 50 and 25 cinemas in the PRC and the rest of Asia respectively for the supply of digital projection and playback equipment	Commence the CG training courses in Shanghai, the PRC
Pre-sell <i>Thru the Moebius Strip</i> to markets other than the US		Commence the 4th CG training course in Shenzhen, the PRC
Set up a merchandising arm and begin licensing of merchandise in the PRC market and other target markets	Keep in close touch with SMPTE Committee DC 28 and work on compliance	
Issue beta version of <i>Thru the Moebius Strip</i> on-line game in Greater China	Market digital cinema in Singapore and Hong Kong	
Begin development of prototype of the <i>Thru the Moebius Strip</i> and <i>Sandman</i> console games in the US with Equinox	Begin planning for digital cinema advertising operations	
Publish first issue of CG, games and digital cinema print and e-magazine	Complete BDC evaluation of the Group's digital cinema equipment	
Recruit around 50 digital artists from graduates of the 3rd CG training course	Set up at least 1 digital cinema demonstration site in the US	
Finalise agreements with WAMC, Inc. for production of the first 26 episodes of <i>The New Adventures of Raggedy Ann and Andy</i> and that of <i>Panshel, the Flying Panda</i> and commence their pre-production	Continue with research and development of the evolving digital cinema technology and specification	
Finalise the agreement for the featured film <i>Bit and Byte</i> and commence pre-production		
Finalise the appointment of Overseas Chinese Town as merchandising agent of the Company in the PRC		

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CG creation and production	Digital content distribution and exhibitions	Provision of CG training courses
Begin pre-production of sequel to <i>Thru the Moebius Strip</i>		
Issue first comics based on <i>Thru the Moebius Strip</i>		
Begin development of next on-line game and localization of Korean and Japanese games		

Period II: From 1st January, 2004 to 30th June, 2004

CG creation and production	Digital content distribution and exhibitions	Provision of CG training courses
Launch localized Korean and Japanese on-line games in Greater China market	Further supply digital cinema equipment to Adlabs	Continue to run the CG training courses in Shenzhen and Shanghai, the PRC
Complete development of <i>Thru the Moebius Strip</i> and <i>Sandman</i> console games for publisher	Continue with research and development for interactive digital cinema	
Begin development of next prototypes	Sign up around 80 digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong	
Market DVDs for <i>Thru the Moebius Strip</i>		
Complete <i>The New Adventures of Raggedy Ann &amp; Andy</i> series and begin work on next series		
Begin production of sequel of <i>Thru the Moebius Strip</i>		

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Period III: From 1st July, 2004 to 31st December, 2004

CG creation and production	Digital content distribution and exhibitions	Provision of CG training courses
Complete production of first part of sequel to <i>Thru the Moebius Strip</i>	Further supply digital cinema equipment to Adlabs	Commence the 5th CG training course in Shenzhen, the PRC and the 2nd CG training course in Shanghai, the PRC
Launch further on-line games in Greater China market	Sign up further digital cinemas to reach a total of around 150 in the PRC and around 100 in rest of Asia, such as Singapore and Hong Kong	
Begin pre-production of next film	Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system)	

Period IV: From 1st January, 2005 to 30th June, 2005

CG creation and production	Digital content distribution and exhibitions	Provision of CG training courses
Market DVDs for sequel of <i>Thru the Moebius Strip</i>	Further supply digital cinema equipment to Adlabs	Continue to run the 5th CG training course in Shenzhen, the PRC and the 2nd CG training course in Shanghai, the PRC
Complete second Japan film	Sign up further digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong, to reach total of around 250 and 120 respectively	
Begin prototype for next console game		
Launch further on-line games in Greater China	Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system)	
Begin production in next film project		

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**Period V: From 1st July, 2005 to 31st December, 2005**

<b>CG creation and production</b>	<b>Digital content distribution and exhibitions</b>	<b>Provision of CG training courses</b>
Complete and launch film project	Further supply digital cinema equipment to Adlabs  Reach a total of around 350 digital cinemas in the PRC and around 150 in rest of Asia, such as Singapore and Hong Kong  Continue with research and development of the evolving digital cinema technology and specification (including interactive digital cinema and network-based entertainment system)	Commence the 6th CG training course in Shenzhen, the PRC and the 3rd CG training course in Shanghai, the PRC

The Group will have substantial merchandising games, magazine and comics publishing, training, film and television production, video compression productions divisions operating at this date and intellectual property in films, television series, games, books and magazines, and will be operating globally.

## BASES AND ASSUMPTIONS

The Directors have assessed the potential of the CG market and formulated the above business strategies and implementation plans to achieve the Company’s business objectives on (i) the bases of past industry trend; (ii) anticipated market demand; and (iii) future growth of its products and services based on the Directors’ experience and knowledge. The Directors have made the following principal assumptions in making such assessment and formulation:

### General assumptions

1. The Group is not materially adversely affected by any change in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal market, or economic conditions in the BVI, Bermuda, the PRC and Hong Kong or any other countries in which the Group carries on business.
2. The Group is not materially adversely affected by any change in bases or rates of taxation or duties in the PRC or in any other places in which the Group operates or is incorporated.
3. The Group is not materially adversely affected by any change in inflation, interest rates or exchange rates from those currently prevailing.

### Specific assumptions

1. The Group is not adversely affected by any of the risk factors set out in the section headed “Risk factors” of this prospectus.

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2. The Group does not encounter any significant difficulty in the research and development of any of its new products.
3. The Group does not encounter any significant problem or disruption adversely affecting its operations or business objectives in any ways, including but is not limited to:
  - failure in the Group's software and hardware systems for whatever reasons; and
  - the Group being involved in future litigation with respect to intellectual property rights and proprietary rights which disrupts the Group's business operations.
4. Necessary co-operation from the Group's business partners and approvals are received from relevant authorities.
5. There will be a strong demand for CG animated works and related products especially in the North America, Europe and Japan.
6. All business partners involved in the Group's projects on hand will complete their respective works on time.
7. The producers/co-producers of the Group's future projects will have sufficient financing to complete the projects on time.

## REASONS FOR THE NEW ISSUE AND USE OF PROCEEDS

The Group intends to raise funds by way of the New Issue to expand its business operations so that it can capitalize on the fast growing market for CG creation and production and digital content distribution and exhibitions.

The net proceeds from the New Issue, after deducting related commission and expenses, are estimated to be approximately HK\$53.3 million. The Directors intend to apply the net proceeds as follows:

- as to approximately HK\$4.9 million for strengthening its management team and international marketing team;
- as to approximately HK\$27.7 million for developing the digital cinema distribution network in the PRC and Asia;
- as to approximately HK\$12.6 million for research and development of digital cinema technologies in Hong Kong;
- as to approximately HK\$5.6 million for production maintenance, which include as to HK\$2.0 million for overheads and staff payment, and as to HK\$3.6 million for co-financing (i.e. participation by the Group in financing CG projects along with other investor(s)) in relation to the Group's CG projects on hand other than *Thru the Moebius Strip*; and
- as to the balance of approximately HK\$2.5 million as general working capital for the Group.

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The proposed use of the net proceeds by the Group for the period from the Latest Practicable Date to 31st December, 2003 and for each of the six-month periods from 1st January, 2004 to 31st December, 2005 is set out below.

	From the Latest Practicable Date to 31st December, 2003	30th June, 2004	For the 6 months ending 31st December, 2004	30th June, 2005	31st December, 2005	Total
			<i>HK\$ million</i>			
Strengthening management and international marketing team	4.9	—	—	—	—	4.9
Developing digital cinema distribution network	1.5	8.5	8.5	4.6	4.6	27.7
Research and development of digital cinema technologies	2.4	2.4	2.4	3.0	2.4	12.6
Production maintenance and co-financing	3.2	1.2	1.2	—	—	5.6
Working capital	2.5	—	—	—	—	2.5
Total	14.5	12.1	12.1	7.6	7.0	53.3

The Directors believe that the net proceeds from the New Issue together with the Group's internally generated cash flow will be sufficient to finance all planned and/or intended projects of the Group as described in this section.

In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold the funds as short-term deposits so long as the Directors consider it to be in the best interest of the Company and its shareholders taken as a whole.

To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short-term interest-bearing deposits with authorised financial institutions in Hong Kong. In the event that the Company changes or intends to change the manner of application of the use of proceeds from the New Issue, it will issue a separate announcement as soon as practicable and take relevant actions to comply with the provisions of the GEM Listing Rules.

## Warning:

The Group's plans and intentions as set out above are based on the existing plans and intentions of the Group. Furthermore, as such plans and intentions are based on assumptions of future events which by their nature are subject to uncertainty, the Group's actual course of action may vary from the plans and intentions as set out above. Although the Directors will endeavour to execute such plans in accordance with the scheduled timeframe, there is no assurance that such plans will materialise, resulting in the conclusion of any agreement or be accomplished in accordance with the aforesaid timeframe or that the objectives of the Group will be fully fulfilled or fulfilled at all. In addition, many if not all of the underlying assumptions are untested and accordingly, may turn out to be invalid. This may result in any or all of the objectives not being achieved within the scheduled timeframe or at all.