

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.



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23rd July, 2003

The Directors
Global Digital Creations Holdings Limited

Dear Sirs

We set out below our report on the financial information relating to Global Digital Creations Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the years ended 31st December, 2001 and 2002 and the one months ended 31st January, 2002 and 2003 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 23rd July, 2003 (the “Prospectus”) in connection with the issue of new shares by way of placing and public offer of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”).

The Company was incorporated in Bermuda on 9th October, 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganization (the “Reorganization”) as detailed in the section headed “Corporate reorganization” in appendix V to the Prospectus, which was completed on 31st December, 2002, the Company became the holding company of the subsidiaries, details of which are set out in section VI below.

No audited accounts have been prepared by the Company, GDC (BVI) Limited and GDC Holdings Limited since their respective dates of incorporation as these companies were newly incorporated and have not been involved in any significant business transactions other than the Reorganization referred to herein. We have, however, reviewed the management accounts or, where appropriate, major transactions of GDC (BVI) Limited and GDC Holdings Limited since their respective dates of incorporation.

PricewaterhouseCoopers have acted as auditors of other companies comprising the Group for the Relevant Periods, except for 環球數碼媒體科技研究(深圳)有限公司 (“IDMT”) in respect of the years ended 31st December, 2001 and 2002 and the one month ended 31st January, 2003 where Shenzhen Guangshen Certified Public Accountants were the auditors for the specified financial periods.

For the purpose of this report, we have undertaken independent audits of the accounts of IDMT for the Relevant Periods and of the accounts of the Company since its date of incorporation to 31st January, 2003 in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants.

We have examined the audited accounts or, where appropriate, the management accounts, which have been independently reviewed or audited by us as stated above, of the companies comprising the Group for the Relevant Periods or from their respective dates of incorporation to 31st January, 2003, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

The financial information as set out in sections I to VIII below (“Financial Information”) has been prepared based on the audited accounts or, where appropriate, management accounts of all companies comprising the Group, on the basis set out in section V note (1) below, after making such adjustments as are appropriate. The directors of the respective companies, for the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company (the “Directors”) are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in section V note (1) below, gives a true and fair view of the state of affairs of the Company as at 31st December, 2002 and 31st January, 2003, the consolidated state of affairs of the Group as at 31st December, 2001 and 2002 and 31st January, 2003 and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

I CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The following is a summary of the consolidated results of the Group for the Relevant Periods, prepared on the basis set out in section V note (1) below, and after making such adjustments as are appropriate:

		Year ended 31st December,		One month ended 31st January,	
	<i>Section V Note</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3	2,240	2,306	199	240
Cost of sales		<u>(3,069)</u>	<u>(3,228)</u>	<u>(235)</u>	<u>(286)</u>
Gross loss		(829)	(922)	(36)	(46)
Other revenue	3	12	22	2	—
Administrative expenses		(7,657)	(11,644)	(736)	(1,145)
Other operating expenses, net		<u>(1,761)</u>	<u>(3,089)</u>	<u>(221)</u>	<u>(253)</u>
Operating loss	5	(10,235)	(15,633)	(991)	(1,444)
Finance costs	6	<u>(82)</u>	<u>(1,796)</u>	<u>(21)</u>	<u>(446)</u>
Loss for the year/ period	8	<u>(10,317)</u>	<u>(17,429)</u>	<u>(1,012)</u>	<u>(1,890)</u>
Loss per share	12				
Basic		<u>(25.79 cents)</u>	<u>(43.57 cents)</u>	<u>(2.53 cents)</u>	<u>(4.73 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

II CONSOLIDATED BALANCE SHEETS AND BALANCE SHEETS

(1) Consolidated balance sheets

The following is a summary of the consolidated balance sheets of the Group as at 31st December, 2001 and 2002 and 31st January, 2003, prepared on the basis set out in section V note (1) below, and after making such adjustments as are appropriate:

	<i>Section V Note</i>	As at 31st December, 2001 HK\$'000	2002 HK\$'000	As at 31st January, 2003 HK\$'000
Non-current assets				
Fixed assets	14	24,861	28,160	27,981
Current assets				
Production work in progress	17	17,946	43,564	45,619
Trade receivables	18	—	69	81
Prepayments, deposits and other receivables	19	1,154	2,047	2,148
Bank balances and cash	20	1,068	8,089	2,415
		20,168	53,769	50,263
Current liabilities				
Training fees received in advance		811	1,122	903
Advances from a Director	21	308	598	1,538
Advances from an officer	21	—	3,300	800
Advances from a shareholder	21	—	12	12
Current portion of long-term liabilities	26	757	12,838	13,421
Other payables and accrued charges		3,209	8,441	7,064
Amounts due to Global Digital Creations Limited	27	—	70	70
Loans from shareholders	22	—	7,900	7,900
Other loans	23	—	8,500	8,500
		5,085	42,781	40,208
Net current assets		15,083	10,988	10,055
Total assets less current liabilities		39,944	39,148	38,036
Financed by:				
Share capital	24	400	400	400
Reserves	25	26,878	5,027	3,111
Shareholders' funds		27,278	5,427	3,511
Non-current liabilities				
Loans from a shareholder	22	—	11,746	11,777
Long-term liabilities	26	1,738	21,975	22,748
Amounts due to Global Digital Creations Limited	27	10,928	—	—
		39,944	39,148	38,036

(2) Balance sheets

The following is a summary of the balance sheets of the Company as at 31st December, 2002 and 31st January, 2003:

	<i>Section V Note</i>	As at 31st December, 2002 HK\$'000	As at 31 January, 2003 HK\$'000
Non-current asset			
Investment in a subsidiary	15	8,659	8,559
Current liabilities			
Other payables and accrued charges		<u>(3,232)</u>	<u>(3,132)</u>
Total assets less current liabilities		<u><u>5,427</u></u>	<u><u>5,427</u></u>
Financed by:			
Share capital	24	400	400
Reserves	25	<u>5,027</u>	<u>5,027</u>
Shareholders' funds		<u><u>5,427</u></u>	<u><u>5,427</u></u>

The balance sheet as at 31st December, 2001 is not presented as the Company was incorporated on 9th October, 2002.

III CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the consolidated statements of changes in equity of the Group for the Relevant Periods, prepared on the basis set out in section V note (1) below, and after making such adjustments as are appropriate:

		Year ended 31st December,		One month ended 31st January,	
	Section V Note	2001 HK\$'000	2002 HK\$'000	2002 HK\$'000	2003 HK\$'000
Total equity at beginning of year/ period		37,592	27,278	27,278	5,427
Exchange differences arising on translation of the accounts of foreign subsidiaries not recognized in the consolidated profit and loss accounts	25	3	43	43	(26)
Loss for the year/period	25	(10,317)	(17,429)	(1,012)	(1,890)
Share issuance costs	25	—	(4,465)	—	—
Total equity at end of year/period		<u>27,278</u>	<u>5,427</u>	<u>26,309</u>	<u>3,511</u>

IV CONSOLIDATED CASH FLOW STATEMENTS

The following is a summary of the consolidated cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in section V note (1) below, and after making such adjustments as are appropriate:

Section V Note	Year ended 31st December, 2001		One month ended 31st January, 2002	
	HK\$'000	HK\$'000	HK\$'000	2003 HK\$'000
Cash flows from operating activities				
Loss for the year/period	(10,317)	(17,429)	(1,012)	(1,890)
Adjustments for:				
Depreciation	1,844	2,701	180	287
Premium on redemption of convertible note	—	312	—	—
Amortization of loan guarantee fee	—	71	—	36
Interest income	(12)	(22)	(2)	—
Interest expense	82	1,413	21	410
Loss on disposal of fixed assets	141	1	—	—
Loss for the year/period before working capital changes	(8,262)	(12,953)	(813)	(1,157)
Increase in production work in progress	(8,984)	(21,534)	(1,469)	(1,622)
Increase in trade receivables	—	(69)	—	(12)
Increase in prepayments, deposits and other receivables	(606)	(964)	(43)	(137)
Increase/(decrease) in advances from a Director	59	290	(96)	940
Increase/(decrease) in advances from an officer	—	3,300	—	(2,500)
Increase in advances from a shareholder	—	12	—	—
(Decrease)/increase in training fees received in advance	(398)	311	(165)	(219)
(Decrease)/increase in other payables and accrued charges	(450)	1,223	(631)	(1,502)
Net cash used in operations	(18,641)	(30,384)	(3,217)	(6,209)
Interest paid	(82)	(948)	(21)	(185)
Net cash used in operating activities	(18,723)	(31,332)	(3,238)	(6,394)
Cash flows from investing activities				
Proceeds from sale of fixed assets	83	—	—	—
Purchase of fixed assets	(13,847)	(10,085)	(121)	(541)
Interest received	12	22	2	—
Net cash used in investing activities	(13,752)	(10,063)	(119)	(541)
Cash flows from financing activities	29			
Increase in amounts due to Global Digital Creations Limited	30,608	23,414	2,963	—
Share issuance costs	—	(1,233)	—	(100)
Increase in loans from shareholders	—	1,674	—	31
Increase in long-term bank loan	—	14,143	—	—
New finance lease obligations	2,500	13,960	—	1,858
Capital element of finance lease rental payments	(297)	(3,585)	(66)	(502)
Net cash from financing activities	32,811	48,373	2,897	1,287
Effect of foreign exchange rate changes	3	43	43	(26)
Net increase/(decrease) in cash and cash equivalents	339	7,021	(417)	(5,674)
Cash and cash equivalents at beginning of year/period	729	1,068	1,068	8,089
Cash and cash equivalents at end of year/period	1,068	8,089	651	2,415
Analysis of balances of cash and cash equivalents				
Bank balances and cash	1,068	8,089	651	2,415

V NOTES TO THE FINANCIAL INFORMATION**(1) Basis of preparation**

Following completion of the Reorganization on 31st December, 2002, the Company became the holding company of the subsidiaries, details of which are set out in section VI below. The Group resulting from the Reorganization is regarded as a continuing entity. Accordingly, the Financial Information has been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group following the Reorganization throughout the Relevant Periods or from their respective dates of incorporation to 31st January, 2003, where this is a shorter period.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

The Financial Information has been prepared on the basis that the Group will continue to operate as a going concern on the basis of the following:

- (i) the Group received HK\$28,500,000 and HK\$11,700,000 from Overseas Chinese Town (Hong Kong) Co., Ltd. (“Overseas Chinese Town”) and CITIC International Assets Management Limited (“CITIC”) respectively in June 2003 as consideration to subscribe for shares of the Company pursuant to subscription agreements, details of which were set out in section VII notes (vi) and (vii); and
- (ii) the Company is planning a new listing of the Company’s shares on GEM, from which the estimated net proceeds of approximately HK\$53,300,000 are intended to be applied to fund the expansion of the Group’s business operations and for working capital purposes.

(2) Principal accounting policies

The Financial Information is prepared under the historical cost convention. The principal accounting policies adopted in the preparation of the Financial Information contained in this report are set out below. These policies conform with accounting principles generally accepted in Hong Kong and statements of standard accounting practice issued by the Hong Kong Society of Accountants.

(a) *Subsidiaries*

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the Company’s balance sheet, the investment in a subsidiary is stated at cost less provision for impairment losses. The results of the subsidiary are accounted for by the Company on the basis of dividends received or receivable.

(b) *Jointly controlled operations*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The assets that the Group controls and liabilities that it incurs in relation to jointly controlled operations joint ventures are recognized in the balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from services rendered by these joint ventures are included in the profit and loss account.

(c) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The estimated useful lives of fixed assets are summarized as follows:

Leasehold improvements	over lease term
Furniture, fixtures and equipment	5 years
Computer equipment	3 years
Digital film encoders and servers	10 years
Motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the fixed asset is estimated and where relevant, an impairment loss is recognized to reduce the fixed asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

(d) *Film costs and films under production*

Films under production is stated at cost less provision for impairment losses. Cost comprises direct production costs, consultancy fees, payment for intellectual property rights and appropriate proportion of production overheads which are allocated on the basis of floor areas occupied by the production unit, proportion of time of production facilities utilised or other systematic allocation methods where the Directors consider appropriate.

Production costs are transferred to film costs upon completion. Film costs are stated at cost less accumulated amortization and accumulated impairment losses. Film costs less accumulated impairment losses are amortized based on the ratio of the actual gross revenues of the current period to the estimated remaining total gross revenues from all sources on an individual production basis.

(e) *Assets under leases*(i) *Finance leases*

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance lease is capitalized at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the lease period. The fixed assets acquired under finance leases are included in the balance sheet according to their nature, and where applicable, are depreciated in accordance with the Group's depreciation policies as set out in section V note (2)(c) above.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) is recognized in accordance with the Group's revenue recognition policies as set out in section V note (2)(f)(iii) below.

(f) **Revenue recognition**

The Group recognizes revenues on the following bases:

- (i) Training fee income is recognized over the period of the course. Unearned training fee income received is recorded as training fees received in advance.
- (ii) Box office receipts are recognized when the digital motion pictures are exhibited.
- (iii) Rental income from equipment leasing is recognized on a straight-line basis.
- (iv) Franchise fees from digital cinemas for use of equipment are recognized on an accrual basis in accordance with the substance of the relevant agreement.
- (v) Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(g) **Borrowing costs**

Guarantee fee paid in respect of the Group's long-term bank loan is amortized on a straight-line basis over the term of the bank loan.

All borrowing costs, which include premium on redemption of convertible note, are charged to the profit and loss account in the period in which they are incurred.

(h) **Research and development costs**

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognized as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognized as an asset and amortized on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognized. During the Relevant Periods, all research and development costs incurred have been expensed to the profit and loss account as no such costs satisfied the criteria for capitalization as an asset.

(i) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, unrealized profits resulting from intra-group transactions and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) **Employee benefits**(i) **Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

(ii) *Pension obligations*

The Group maintains various retirement schemes which are defined contribution in nature and are available to qualified employees. Monthly contributions made by the Group are calculated based on certain percentages of the applicable payroll costs. Contributions are charged to the profit and loss account as incurred.

(k) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(l) *Segment reporting*

In accordance with the Group's internal financial reporting the Group has determined that business segments are presented as the primary reporting format and geographical segments are presented as the secondary reporting format.

Unallocated costs primarily represent corporate expenses. Segment assets consist primarily of fixed assets, production work in progress and operating cash. Segment liabilities comprise operating liabilities and exclude corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located. Segment assets and capital expenditure are where the assets are located.

Inter-segment revenues and results are eliminated on consolidation.

(m) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

(n) *Provisions*

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(o) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

(3) Revenues and turnover

The Group is principally engaged in the computer graphics (“CG”) creation and production, distribution of digital content and the provision of CG training courses. Revenues, net of business tax, recognized during the Relevant Periods are as follows:

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
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
Other revenue				
Interest income	12	22	2	—
Total revenues	2,252	2,328	201	240

(4) Segment information

Primary reporting format — business segments

The Group is organized into three main business segments including CG creation and production, digital content distribution and exhibitions and provision of CG training courses.

	Year ended 31st December, 2001				
	CG creation and production	Digital content distribution and exhibitions	CG training courses	Corporate	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	—	—	2,240	—	2,240
Segment results	(2,307)	(4,111)	(1,342)		(7,760)
Other revenue					12
Unallocated costs					(2,487)
Operating loss					(10,235)
Finance costs					(82)
Loss for the year					(10,317)
Segment assets	36,328	990	5,919		43,237
Unallocated assets					1,792
Total assets					45,029
Segment liabilities	1,833	1	1,613		3,447
Unallocated liabilities					14,304
Total liabilities					17,751
Capital expenditure	10,488	1,164	1,796	691	14,139
Depreciation	1,847	233	1,484	68	3,632

	Year ended 31st December, 2002				
	Digital content		CG training courses	Corporate	Total
	CG creation and production	distribution and exhibitions			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	—	254	2,052	—	2,306
Segment results	(3,515)	(8,285)	(1,189)		(12,989)
Other revenue					22
Unallocated costs					(2,666)
Operating loss					(15,633)
Finance costs					(1,796)
Loss for the year					(17,429)
Segment assets	62,859	4,645	5,658		73,162
Unallocated assets					8,767
Total assets					81,929
Segment liabilities	2,088	501	1,551		4,140
Unallocated liabilities					72,362
Total liabilities					76,502
Capital expenditure	5,437	4,338	176	134	10,085
Depreciation	4,242	893	1,524	126	6,785
Amortization	71	—	—	—	71
One month ended 31st January, 2002					
	Digital content		CG training courses	Corporate	Total
	CG creation and production	distribution and exhibitions			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	—	—	199	—	199
Segment results	(247)	(478)	(48)		(773)
Other revenue					2
Unallocated costs					(220)
Operating loss					(991)
Finance costs					(21)
Loss for the period					(1,012)
Segment assets	36,819	1,101	6,824		44,744
Unallocated assets					1,416
Total assets					46,160
Segment liabilities	1,875	—	1,175		3,050
Unallocated liabilities					16,802
Total liabilities					19,852
Capital expenditure	40	27	3	51	121
Depreciation	310	33	124	10	477

	One month ended 31st January, 2003				
	CG creation and production <i>HK\$'000</i>	Digital content distribution and exhibitions <i>HK\$'000</i>	CG training courses <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	—	12	228	—	240
Segment results	(312)	(805)	(53)		(1,170)
Other revenue					—
Unallocated costs					(274)
Operating loss					(1,444)
Finance costs					(446)
Loss for the period					(1,890)
Segment assets	64,418	5,091	5,678		75,187
Unallocated assets					3,057
Total assets					78,244
Segment liabilities	281	322	1,314		1,917
Unallocated liabilities					72,816
Total liabilities					74,733
Capital expenditure	106	386	49	—	541
Depreciation	448	126	135	11	720
Amortization	36	—	—	—	36

Secondary reporting format — geographical segments

The Group's three business segments operate in two main geographical areas, namely Hong Kong and China mainland. Hong Kong is the head office of the Group and its research and development centre. China mainland is where the Group's CG production centre is located and the CG training courses are organized.

	Year ended 31st December, 2001			
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	—	(4,373)	12,597	1,613
China mainland	2,240	(3,387)	30,640	12,526
	2,240			14,139
Other revenue		12		
Unallocated costs		(2,487)		
Operating loss		(10,235)		
Unallocated assets			1,792	
Total assets			45,029	

	Year ended 31st December, 2002			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	—	(8,292)	27,254	2,049
China mainland	2,306	(4,697)	45,908	8,036
	<u>2,306</u>			<u>10,085</u>
Other revenue		22		
Unallocated costs		<u>(2,666)</u>		
Operating loss		<u>(15,633)</u>		
Unallocated assets			<u>8,767</u>	
Total assets			<u>81,929</u>	
	One month ended 31st January, 2002			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	—	(498)	12,683	78
China mainland	199	(275)	32,061	43
	<u>199</u>			<u>121</u>
Other revenue		2		
Unallocated costs		<u>(220)</u>		
Operating loss		<u>(991)</u>		
Unallocated assets			<u>1,416</u>	
Total assets			<u>46,160</u>	
	One month ended 31st January, 2003			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	—	(893)	28,174	395
China mainland	240	(277)	47,013	146
	<u>240</u>			<u>541</u>
Other revenue		—		
Unallocated costs		<u>(274)</u>		
Operating loss		<u>(1,444)</u>		
Unallocated assets			<u>3,057</u>	
Total assets			<u>78,244</u>	

(5) Operating loss

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating loss is stated after crediting and charging the following:				
<i>Crediting —</i>				
Exchange gain, net	—	—	—	21
<i>Charging —</i>				
Auditors' remuneration	135	122	7	7
Depreciation (<i>note a</i>)	1,844	2,701	180	287
Exchange loss, net	6	68	46	—
Loss on disposal of fixed assets	141	1	—	—
Operating lease rentals on land and buildings (<i>note b</i>)	1,040	1,075	76	87
Research and development costs (<i>note c</i>)	1,152	2,232	175	274
Staff costs (<i>note c</i>)	3,908	5,361	365	549

Notes:

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Depreciation				
— owned assets	3,260	2,754	402	256
— leased assets	372	4,031	75	464
	3,632	6,785	477	720
Less: amounts included in production work in progress	(1,788)	(4,084)	(297)	(433)
	1,844	2,701	180	287
(b) Operating lease rentals on land and buildings	2,095	2,310	170	212
Less: amounts included in production work in progress	(1,055)	(1,235)	(94)	(125)
	1,040	1,075	76	87
(c) Staff costs (including Directors' emoluments)				
— wages and salaries	9,448	21,356	1,478	1,898
— other allowances and benefits	965	1,992	306	173
— retirement benefit costs (<i>note 9</i>)	231	780	62	91
	10,644	24,128	1,846	2,162
Less: amounts included in production work in progress	(5,584)	(16,535)	(1,306)	(1,339)
amounts included in research and development costs	(1,152)	(2,232)	(175)	(274)
	3,908	5,361	365	549

(6) Finance costs

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expenses on				
— finance leases	82	828	21	115
— bank loan	—	121	—	71
— other loans (wholly repayable within five years)	—	84	—	39
— loans from shareholders	—	370	—	175
— convertible note	—	10	—	10
Premium on redemption of convertible note	—	312	—	—
Amortization of loan guarantee fee	—	71	—	36
	<u>82</u>	<u>1,796</u>	<u>21</u>	<u>446</u>

(7) Taxation

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

The subsidiary of the Company operating in China mainland 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. The subsidiary is still under the tax holiday during the Relevant Periods.

The reconciliation between the Group's loss for the year/period and the amount which is calculated based on the tax rate of 16% in Hong Kong is as follows:

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the year/period	<u>(10,317)</u>	<u>(17,429)</u>	<u>(1,012)</u>	<u>(1,890)</u>
Tax calculated at the tax rate of 16%	(1,651)	(2,789)	(162)	(302)
Expenses not deductible for taxation purposes	1,111	2,069	118	241
Deferred tax benefits arising from tax losses in a subsidiary not recognized	—	50	—	1
(Income)/loss of a subsidiary in China mainland under tax holiday	(50)	(627)	44	60
Temporary difference arising from unrealized profit resulting from intra-group transactions for which no deferred taxation is recognized	<u>590</u>	<u>1,297</u>	<u>—</u>	<u>—</u>
Taxation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(8) Loss for the year/period

The consolidated loss for the years ended 31st December, 2001 and 2002 and the one months ended 31st January, 2002 and 2003 are all dealt with in the accounts of subsidiaries as the Company had not reported any profit or loss since its date of incorporation to 31st January, 2003.

(9) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the People's Republic of China (the "PRC"), the subsidiary in China mainland participates in the municipal government contribution scheme whereby the subsidiary is required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, China mainland and Singapore (collectively the "Retirement Schemes"). Contributions totaling nil, HK\$73,000 and HK\$68,000 payable to the Retirement Schemes at 31st December, 2001 and 2002 and 31st January, 2003 respectively are included in other payables and accrued charges. There was no forfeited contribution throughout the Relevant Periods.

(10) Directors' and senior management's emoluments

(i) Details of the emoluments paid and payable to the Directors during the Relevant Periods are as follows:

	Year ended		One month ended	
	31st December,		31st January,	
	2001	2002	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—	—
Salaries	2,560	2,760	230	100
Allowances and benefits in kind	550	635	53	28
Retirement scheme contributions	21	24	2	1
	<u>3,131</u>	<u>3,419</u>	<u>285</u>	<u>129</u>

Each of the two executive Directors received emoluments of approximately HK\$1,290,000 and HK\$1,841,000 respectively for the year ended 31st December, 2001, approximately HK\$1,871,000 and HK\$1,548,000 respectively for the year ended 31st December, 2002, approximately HK\$156,000 and HK\$129,000 respectively for the one month ended 31st January, 2002 and approximately HK\$129,000 for the one month ended 31st January, 2003. One of the executive Directors resigned on 31st December, 2002 and remains as an employee of the Group.

The quarters provided to the two executive Directors are included as part of their emoluments.

No emoluments were paid to the non-executive Director during the Relevant Periods.

The emoluments of the Directors fall into the following bands:

	Number of Directors			
	Year ended		One month ended	
	31st December,		31st January,	
	2001	2002	2002	2003
Emolument bands:				
Nil to HK\$1,000,000	1	1	3	2
HK\$1,000,001 to HK\$1,500,000	1	—	—	—
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>2</u>	<u>—</u>	<u>—</u>

- (ii) The five individuals whose emoluments were the highest in the Group during the Relevant Periods include two Directors respectively for the years ended 31st December, 2001 and 2002 and the one month ended 31st January, 2002 and one Director for the one month ended 31st January, 2003 whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors	3,131	3,419	285	129
Employees	<u>1,376</u>	<u>2,346</u>	<u>273</u>	<u>469</u>
	<u>4,507</u>	<u>5,765</u>	<u>558</u>	<u>598</u>

- (iii) Details of the emoluments paid by the Group to the remaining highest paid employees as mentioned in section V note (10)(ii) above are as follows:

	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries	1,363	2,346	273	442
Allowances and benefits in kind	—	—	—	25
Retirement scheme contributions	<u>13</u>	<u>—</u>	<u>—</u>	<u>2</u>
	<u>1,376</u>	<u>2,346</u>	<u>273</u>	<u>469</u>

The emoluments of the remaining highest paid employees fall into the following bands:

	Number of individuals			
	Year ended 31st December,		One month ended 31st January,	
	2001	2002	2002	2003
Emolument band:				
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>

- (iv) During the Relevant Periods, no emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No Directors waived or agreed to waive any emoluments during the Relevant Periods.

(11) Dividends

No dividends have been paid or declared by the Company since its incorporation and by companies comprising the Group to their then shareholders during the Relevant Periods.

(12) Loss per share

The calculation of basic 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.

Diluted loss per share for the year ended 31st December, 2001 and the one month ended 31st January, 2002 are not presented because there were no dilutive potential ordinary shares in existence during the year/period. No diluted loss per share is presented for the year ended 31st December, 2002 and the one month ended 31st January, 2003 as the convertible note was anti-dilutive.

(13) Related party transactions

In addition to those transactions and balances with related parties disclosed in section V notes 6, 10, 19, 21, 22, 23, 25, 26(a) and (b), 27 and 29(ii) of this report, the following significant related party transactions have been entered into by the Group during the Relevant Periods:

		Year ended 31st December,		One month ended 31st January,	
		2001	2002	2002	2003
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental expense paid to Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, in respect of a Director quarter	(a)	—	224	—	28
Rental expense paid to Mr. Anthony Francis Neoh in respect of staff quarters	(b)	24	96	8	8
Rental expense paid to Solutions Lab Pte Ltd in respect of an office premise	(c)	—	17	—	4
Secretarial services fee paid to a related company	(d)	5	—	—	—
Consultancy services fee paid to a related company	(e)	—	—	—	32

Notes:

- (a) On 26th April, 2002, GDC China Limited, a wholly owned subsidiary of the Company, entered into a lease agreement with Ms. Lau Fung Sim, the spouse of Mr. Raymond Dennis Neoh, a Director, for the lease of residential premise as a Director quarter. The Group paid a monthly rental of HK\$28,000 to Ms. Lau Fung Sim for a period of two years commencing 7th May, 2002.
- (b) The Group leased staff quarters from Mr. Anthony Francis Neoh, a Director, for a term of one year commencing 15th October, 2001 at a monthly rental of HK\$8,000 pursuant to a lease agreement dated 15th October, 2001. The lease expired on 14th October, 2002. On 2nd October, 2002, GDC China Limited entered into a new lease agreement with Mr. Anthony Francis Neoh for the lease of the said staff quarters at a monthly rental of HK\$8,000 for a period of one year commencing on 15th October, 2002.
- (c) On 12th August, 2002, the Group entered into a sub-tenancy agreement with Solutions Lab Pte Ltd, a related company of Cyber Prime Developments Limited, a shareholder of the Company, for the sublease of an office premise in Singapore. The Group paid a monthly rental of S\$1,000 for a period of one year commencing from 1st September, 2002.
- (d) During the year ended 31st December, 2001, the Group paid approximately HK\$5,000 for secretarial services provided by Bill Lam & Associates Limited, a fellow subsidiary of Cyber Prime Developments Limited, a shareholder of the Company.
- (e) On 1st January, 2003, the Group entered into a consultancy service agreement with Financial Infrastructure Technology Limited, a related company of Cyber Prime Developments Limited, a shareholder of the Company, pursuant to which the Group agreed to retain certain consultancy services of Financial Infrastructure Technology Limited for a period of 12 months from 1st January, 2003 at a total consideration of HK\$380,000.
- (f) The Group participated in a retirement benefit scheme in Hong Kong of which Kingsway Fund Management Limited, a fellow subsidiary of Cyber Prime Developments Limited, a shareholder of the Company, is the sponsor and fund manager of the retirement benefit scheme. Pursuant to the master trust of the retirement scheme, Kingsway Fund Management Limited is entitled to receive an annual management fee at the rate ranging from 0.4% to 0.9% on the net asset value of the funds managed by Kingsway Fund Management Limited.

- (g) Kingsway Capital Limited, a fellow subsidiary of Cyber Prime Developments Limited, a shareholder of the Company, was engaged to provide financial advisory services to the Group in connection with the listing of the Company's shares on GEM. The aggregate amounts paid/payable to Kingsway Capital Limited for each of the years ended 31st December, 2001 and 2002 and the one months ended 31st January, 2002 and 2003 were nil, HK\$100,000, nil and nil respectively and these amounts were included as part of the share issuance costs (section V note (25)).
- (h) On 15th January, 2000, GDC Entertainment Limited, a wholly owned subsidiary of the Company, entered into an assignment with Moebius Strip Limited (formerly known as Butterfly Dance Holdings Limited), in which Mr. Raymond Dennis Neoh, a Director, is one of the shareholders, for the assignment of the copyright and all other rights in and to "*Thru the Moebius Strip*". Pursuant to the assignment (which was supplemented by a supplemental agreement dated 2nd May, 2003), the assignment consideration consists of (i) US\$60,000; (ii) deferred net profit from the Group's film production of "*Thru the Moebius Strip*" up to a maximum of US\$240,000 should the Group's film production generates a net profit as defined in the assignment agreement; and (iii) 3% of the net profit from the Group's production of "*Thru the Moebius Strip*" in excess of US\$240,000 from time to time. As at 31st January, 2003, the intellectual property rights as referred to in (i) above of approximately HK\$467,000 (equivalent to US\$60,000) was paid and is included in production work in progress (section V note (17)). The equity interest held by Mr. Raymond Dennis Neoh was sold to a third party subsequent to 31st January, 2003.

The Directors consider that the above transactions were conducted in the ordinary course of the Group's business. The Directors have confirmed that, except for the transactions as disclosed in section V note (13)(d) and (g) above, these transactions will continue after the listing of the Company's shares.

(14) Fixed assets

	Group				
	Year ended 31st December, 2001				
	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Cost					
At 1st January, 2001	10,391	396	3,904	—	14,691
Additions	5,285	232	8,059	563	14,139
Disposals	—	—	—	(242)	(242)
At 31st December, 2001	15,676	628	11,963	321	28,588
Accumulated depreciation					
At 1st January, 2001	—	11	102	—	113
Charge for the year	1,082	82	2,407	61	3,632
Disposals	—	—	—	(18)	(18)
At 31st December, 2001	1,082	93	2,509	43	3,727
Net book value	14,594	535	9,454	278	24,861
Net book value of leased assets					
At 31st December, 2001	—	—	2,142	278	2,420

	Group					
	Year ended 31st December, 2002					
	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Digital film encoders and servers <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1st January, 2002	15,676	628	11,963	—	321	28,588
Additions	494	167	7,510	1,914	—	10,085
Disposals	—	(2)	—	—	—	(2)
As at 31st December, 2002	16,170	793	19,473	1,914	321	38,671
Accumulated depreciation						
At 1st January, 2002	1,082	93	2,509	—	43	3,727
Charge for the year	1,545	137	4,912	127	64	6,785
Disposals	—	(1)	—	—	—	(1)
At 31st December, 2002	2,627	229	7,421	127	107	10,511
Net book value	13,543	564	12,052	1,787	214	28,160
Net book value of leased assets						
At 31st December, 2002	—	—	11,416	—	214	11,630

	Group					
	One month ended 31st January, 2003					
	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Digital film encoders and servers <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1st January, 2003	16,170	793	19,473	1,914	321	38,671
Additions	127	19	395	—	—	541
As at 31st January, 2003	16,297	812	19,868	1,914	321	39,212
Accumulated depreciation						
At 1st January, 2003	2,627	229	7,421	127	107	10,511
Charge for the period	136	10	552	17	5	720
At 31st January, 2003	2,763	239	7,973	144	112	11,231
Net book value	13,534	573	11,895	1,770	209	27,981
Net book value of leased assets						
At 31st January, 2003	—	—	11,436	—	209	11,645

(15) Investment in a subsidiary

	Company	
	As at	As at
	31st December, 2002 HK\$'000	31st January, 2003 HK\$'000
Unlisted shares, at cost	9,892	9,892
Amount due to a subsidiary	(1,233)	(1,333)
	<u>8,659</u>	<u>8,559</u>

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are set out in section VI.

(16) Jointly controlled operation

During the year ended 31st December, 2002, the Group has entered into a jointly controlled operation to undertake a digital content distribution and exhibition contract.

The aggregate amounts of assets, liabilities, turnover and results recognized in the Financial Information relating to the Group's interest in the jointly controlled operation are as follows:

	Group			
	Year ended		One month ended	
	31st December, 2001 HK\$'000	2002 HK\$'000	31st January, 2002 HK\$'000	2003 HK\$'000
Results				
Turnover, net of business tax				
Box office receipts from distribution of digital motion pictures	—	116	—	—
Franchise fee from digital cinema for use of equipment	<u>—</u>	<u>48</u>	<u>—</u>	<u>6</u>
	—	164	—	6
Cost of sales — depreciation	<u>—</u>	<u>(64)</u>	<u>—</u>	<u>(8)</u>
Group's share of profit/(loss) for the year/period	<u>—</u>	<u>100</u>	<u>—</u>	<u>(2)</u>

	Group		
	As at		As at
	31st December, 2001 HK\$'000	2002 HK\$'000	31st January, 2003 HK\$'000
Net assets			
Assets			
Fixed assets — digital film encoder and server	—	894	885
Trade receivables	<u>—</u>	<u>50</u>	<u>57</u>
	—	944	942
Liabilities			
Other payables and accrued charges	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>944</u>	<u>942</u>

(17) Production work in progress

	Group		
	As at		As at
	31st December,		31st January,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Production costs incurred, at cost	<u>17,946</u>	<u>43,564</u>	<u>45,619</u>

Production work in progress represents production costs incurred for the film titled “*Thru the Moebius Strip*”, a movie project currently under production by the Group (the “Film”). Based on a valuation on the Film carried out by Grant Sherman Appraisal Limited, an independent professional valuer, on the basis of a fair market value as at 30th April, 2003, the Directors are of the opinion that the production costs incurred as at 31st January, 2003 are fully recoverable.

(18) Trade receivables and payables

Aging analysis of trade receivables in respect of rental income and franchise fee from digital cinemas for the use of equipment is as follows:

	Group		
	As at		As at
	31st December,		31st January,
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within three months	—	38	50
Three to six months	—	19	19
Over six months	<u>—</u>	<u>12</u>	<u>12</u>
	<u>—</u>	<u>69</u>	<u>81</u>

According to the agreements entered into between the Group and the digital cinemas, rental income and franchise fee are settled on a quarterly basis.

As at 31st December, 2001 and 2002 and 31st January, 2003, the Group had no payable of trade nature.

(19) Prepayments, deposits and other receivables

Prepayments, deposits and other receivables of the Group include an amount of HK\$13,000 due from Upflow Holdings Limited, a shareholder of the Company which is beneficially owned by Mr. Raymond Dennis Neoh, a Director as at 31st December, 2001 and 2002 and 31st January, 2003. The amount is unsecured, interest free and is fully repaid on 31st May, 2003. The maximum amounts outstanding during the years ended 31st December, 2001 and 2002 and the one month ended 31st January, 2003 were HK\$13,000, HK\$13,000 and HK\$13,000 respectively.

During the year ended 31st December, 2002, the Group advanced a maximum amount of HK\$90,000 (2001: Nil) to Dr. Chong Man Nang, a Director who resigned on 31st December, 2002. The amount was unsecured, interest-free and fully settled during the year ended 31st December, 2002.

(20) Bank balances and cash

Bank balances and cash of the Group as at 31st December, 2001 and 2002 and 31st January, 2003 include amounts of approximately HK\$1,053,000, HK\$4,503,000 and HK\$2,258,000 respectively denominated in Renminbi, a currency which is subject to exchange control restrictions imposed by the PRC government.

(21) Advances from a Director, an officer and a shareholder

Advances from Mr. Raymond Dennis Neoh, a Director, as at 31st December, 2001 and 2002 and 31st January, 2003 are unsecured and interest-free. The Directors confirm that the amount is scheduled to be fully settled prior to the listing of the Company's shares on GEM.

Advances from Ms. Amelia Mak Lai Yu, company secretary of the Company, as at 31st December, 2002 and 31st January, 2003 are unsecured and interest-free. The amount has been fully settled subsequent to 31st January, 2003.

Advances from Mr. Richard Yingneng Yin, a shareholder of the Company, as at 31st December, 2002 and 31st January, 2003 are unsecured and interest-free. The amount has been fully settled subsequent to 31st January, 2003.

(22) Loans from shareholders/a shareholder

On 27th and 28th November, 2002, the shareholders' loans of HK\$17,972,000 were novated to the Group by Global Digital Creations Limited ("GDC") pursuant to deeds of novation. As at 31st December, 2001 and 2002 and 31st January, 2003, loans from shareholders are as follows:

		Group	
		As at 31st December, 2001	As at 31st January, 2003
	Note	HK\$'000	HK\$'000
Repayable within one year:			
Sotas Limited	(a)	—	7,600
Mr. Richard Yingneng Yin	(b)	—	300
		—	7,900
Repayable later than one year:			
Mr. Anthony Francis Neoh	(c)	—	11,746
		—	19,646

Notes:

- (a) The loans from Sotas Limited are unsecured. An amount of HK\$1,600,000 bears interest at best lending rate as quoted by the Standard Chartered Bank from time to time plus 3% per annum and is repayable in full on 31st July, 2001. The remaining balance of HK\$6,000,000 bears interest at a fixed rate of 10% per annum with an additional interest of 5% per annum on any overdue principal and interest and is repayable in full on 2nd April, 2002. The Group is obliged to grant a share option to Sotas Limited for purchase of new shares of the Company should the Group failed to repay the loan and/or accrued interest to Sotas Limited by 29th June, 2002. Pursuant to the relevant loan agreement and deed of novation entered into with Sotas Limited, the Group granted a share option to Sotas Limited on 5th June, 2003 for the purchase of 504,870 shares of the Company at HK\$0.01 each, representing approximately 8,331,615 shares of the Company upon the listing of the Company's shares on the GEM, at an aggregate exercise price of US\$600,000 with the option period of 36 months commencing from the date of the listing of the Company's shares on GEM. The loans have been fully settled subsequent to 31st January, 2003.
- (b) The loan from Mr. Richard Yingneng Yin is unsecured, bears interest at best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum and is repayable in full by 30th July, 2002. The Directors confirm that the loan is scheduled to be fully settled prior to the listing of the Company's shares on GEM.
- (c) The loan from Mr. Anthony Francis Neoh is unsecured, bears interest at best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum and is not repayable within twelve months from 31st January, 2003.

(23) Other loans

On 27th and 28th November, 2002, other loans of HK\$8,500,000 were novated to the Group by GDC pursuant to deeds of novation. As at 31st December, 2001 and 2002 and 31st January, 2003, other loans are as follows:

	<i>Note</i>	Group	
		As at 31st December, 2001	As at 31st January, 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Kingsway SW Finance Limited	(a)	—	1,700
Mr. William Ka Chung Lam	(b)	—	1,000
E-Talent Investments Limited	(c)	—	5,800
		<u>—</u>	<u>8,500</u>
		<u>—</u>	<u>8,500</u>

Notes:

- (a) The loan from Kingsway SW Finance Limited, a fellow subsidiary of Cyber Prime Developments Limited, a shareholder of the Company, is unsecured, bears interest at best lending rate as quoted by the Standard Chartered Bank from time to time plus 3% per annum and is repayable in full on 14th May, 2003. The Directors confirm that the loan is scheduled to be fully settled prior to the listing of the Company's shares on GEM.
- (b) The loan from Mr. William Ka Chung Lam, a beneficial owner of Perfect Brilliant Limited, a shareholder of the Company, is unsecured, bears interest at best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum and is repayable in full by 30th July, 2002. The Directors confirm that the Group had negotiated with Mr. William Ka Chung Lam who had agreed to extend the loan under the same terms as the relevant loan agreement and that the loan has been fully settled subsequent to 31st January, 2003.
- (c) Pursuant to an agreement between E-Talent Investments Limited ("E-Talent"), an independent third party, and Kingsway SW Finance Limited, Kingsway SW Finance Limited 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. Each of Mr. Anthony Francis Neoh and Mr. Raymond Dennis Neoh and the ultimate beneficial owner of E-Talent has given an irrevocable and unconditional personal guarantee in favour of Kingsway SW Finance Limited for the repayment of the Kingsway Finance Facility. The guarantee shall continue to be effective until final payment has been made.

The loan bears interest at best lending rate as quoted by the Standard Chartered Bank from time to time plus 3% per annum and is repayable in full on 17th June, 2003. The loan has been fully settled subsequent to 31st January, 2003.

(24) Share capital

		Ordinary shares of HK\$0.01 each	
	Note	Number of shares	HK\$'000
Authorized:			
On incorporation at 9th October, 2002	(a)	10,000,000	100
Increase in authorized ordinary share capital	(c)	<u>1,190,000,000</u>	<u>11,900</u>
At 31st December, 2002		<u><u>1,200,000,000</u></u>	<u><u>12,000</u></u>
Issued and fully paid:			
Shares allotted on 7th November, 2002	(b)	10,000,000	100
Shares allotted on 31st December, 2002 for acquisition of subsidiaries pursuant to the Reorganization	(d)	<u>30,000,000</u>	<u>300</u>
At 31st December, 2002 and 31st January, 2003		<u>40,000,000</u>	<u>400</u>

Notes:

- (a) The Company was incorporated in Bermuda on 9th October, 2002 with an authorized capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each.
- (b) On 7th November, 2002, 10,000,000 shares were issued and allotted to Upflow Holdings Limited as nil paid (note (d) below).
- (c) By a written resolution passed by the shareholders of the Company on 31st December, 2002, the authorized ordinary share capital of the Company was increased from HK\$100,000 to HK\$12,000,000 by the creation of 1,190,000,000 shares of HK\$0.01 each.
- (d) On 31st December, 2002, the shareholders of GDC (BVI) Limited (now the shareholders of the Company) transferred the entire share capital of GDC (BVI) Limited, now an intermediate holding company of the companies comprising the Group, to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 30,000,000 new shares of HK\$0.01 each; and (ii) credited as fully paid at par the 10,000,000 nil paid shares of HK\$0.01 each held by Upflow Holdings Limited.
- (e) For the purpose of the preparation of the Financial Information, the share capital shown in the consolidated balance sheet as at 31st December, 2001 represented 40,000,000 shares of HK\$0.01 each in the share capital of the Company upon completion of the Reorganization.

(25) Reserves

	Group					
	Contributed surplus	Share issuance costs	Accumulated losses	Statutory reserve	Exchange reserve	Total
	<i>(note a)</i>			<i>(note b)</i>		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2001	40,271	—	(3,081)	—	2	37,192
Exchange differences	—	—	—	—	3	3
Loss for the year	—	—	(10,317)	—	—	(10,317)
At 31st December, 2001	<u>40,271</u>	<u>—</u>	<u>(13,398)</u>	<u>—</u>	<u>5</u>	<u>26,878</u>
At 1st January, 2002	40,271	—	(13,398)	—	5	26,878
Share issuance costs	—	(4,465)	—	—	—	(4,465)
Exchange differences	—	—	—	—	43	43
Loss for the year	—	—	(17,429)	—	—	(17,429)
Transfer from retained profit to statutory reserve	—	—	(415)	415	—	—
At 31st December, 2002	<u>40,271</u>	<u>(4,465)</u>	<u>(31,242)</u>	<u>415</u>	<u>48</u>	<u>5,027</u>
At 1st January, 2002	40,271	—	(13,398)	—	5	26,878
Exchange differences	—	—	—	—	43	43
Loss for the period	—	—	(1,012)	—	—	(1,012)
At 31st January, 2002	<u>40,271</u>	<u>—</u>	<u>(14,410)</u>	<u>—</u>	<u>48</u>	<u>25,909</u>
At 1st January, 2003	40,271	(4,465)	(31,242)	415	48	5,027
Exchange differences	—	—	—	—	(26)	(26)
Loss for the period	—	—	(1,890)	—	—	(1,890)
At 31st January, 2003	<u>40,271</u>	<u>(4,465)</u>	<u>(33,132)</u>	<u>415</u>	<u>22</u>	<u>3,111</u>

	Company		
	Contributed surplus (note c) HK\$'000	Share issuance costs HK\$'000	Total HK\$'000
At 1st January, 2002	—	—	—
Effect of the Reorganization	9,492	—	9,492
Share issuance costs	—	(4,465)	(4,465)
At 31st December, 2002 and 31st January, 2003	<u>9,492</u>	<u>(4,465)</u>	<u>5,027</u>

Notes:

- (a) On 27th and 28th November, 2002, GDC transferred its entire shareholdings in and receivables of HK\$74,916,000 (section V note (27)) from GDC Technology Limited, GDC Entertainment Limited and GDC China Limited to GDC Holdings Limited in consideration of and exchange for which GDC Holdings Limited (i) allotted and issued 521,418,075 ordinary shares of US\$0.01 each to GDC; and (ii) assumed certain loans and a convertible note owed by GDC totaling approximately HK\$34,272,000 by way of novation (section V notes (22), (23) and (26)(b)).

On 28th November, 2002, GDC transferred its entire shareholding in GDC Holdings Limited to GDC (BVI) Limited in consideration of and exchange for GDC (BVI) Limited's allotment and issuance of 521,418,075 ordinary shares of US\$0.01 each to GDC. On the same date, GDC distributed its entire equity interests in GDC (BVI) Limited to its shareholders by way of distribution in specie on a pro rata basis.

On 31st December, 2002, the shareholders of GDC (BVI) Limited transferred the entire share capital of GDC (BVI) Limited to the Company in consideration of and exchange for the Company's allotment and issuance of 40,000,000 ordinary shares of HK\$0.01 each to the shareholders on a pro rata basis.

The difference between the nominal value of the shares of GDC (BVI) Limited and the nominal value of the Company's shares issued in exchange therefor pursuant to the Reorganization is accounted for as contributed surplus of the Group.

- (b) As stipulated by the rules and regulations in China mainland, foreign investment enterprises are required to appropriate part of their after-tax profit (after offsetting prior years' losses) to certain statutory reserves. IDMT, as a wholly foreign owned enterprise established in the PRC, is required to appropriate 10% of its after-tax profit (after offsetting prior years' losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital and thereafter any further appropriation is optional and is determinable by the company's board of directors. The statutory reserve as at 31st December, 2002 and 31st January, 2003 represents general reserve fund of IDMT of approximately HK\$415,000, which can only be used, upon approval by the relevant authority, to offset prior year losses or to increase capital.
- (c) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the combined net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganization.

(26) Long-term liabilities

	Group		
	As at		As at
	31st December,	2002	31st January,
	2001		2003
	HK\$'000	HK\$'000	HK\$'000
Bank loan, secured (<i>note a</i>)	—	14,143	14,143
Convertible note (<i>note b</i>)	—	7,800	7,800
Obligations under finance leases (<i>note c</i>)	2,495	12,870	14,226
	2,495	34,813	36,169
Current portion included in current liabilities	(757)	(12,838)	(13,421)
	1,738	21,975	22,748

Notes:

- (a) On 31st October, 2002, banking facilities of RMB30,000,000 (equivalent to approximately HK\$28,286,000) have been obtained by IDMT from Bank of China, Shenzhen branch ("BOC Facilities") which are guaranteed by GDC and 中投信用擔保有限公司 ("CICG"), an independent third party (the "CICG Guarantee"). GDC and Mr. Raymond Dennis Neoh have given counter-guarantees in favour of CICG and GDC China Limited, now a subsidiary of the Group, 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 which CICG is liable under the CICG Guarantee. The guarantee given by GDC will be effective till two years upon the expiry of the term of the bank loan. The counter-guarantee given by Mr. Raymond Dennis Neoh will be released following the listing of the shares of the Company on the GEM. The counter-guarantee given by GDC and the BOC Asset Pledge will remain effective until IDMT has repaid all debts under the BOC Facilities.

As at 31st December, 2002, a bank loan of RMB15,000,000 (equivalent to approximately HK\$14,143,000) was drawn down under the BOC Facilities. The bank loan bears interest at 0.50% per month and is wholly repayable in October 2004.

- (b) On 27th November, 2002, GDC Holdings Limited, now a subsidiary of the Group, entered into a deed of novation with GDC and Middle Asia Limited ("Middle Asia") pursuant to which GDC Holdings Limited agreed to take over all the rights, title, interests, benefits, obligations and liabilities of GDC under the convertible note ("Convertible Note") subscription agreement ("Subscription Agreement") entered into between GDC and Middle Asia. Pursuant to the deed of novation, the Convertible Note of HK\$7,800,000 was novated to GDC Holdings Limited.

The Convertible Note was unsecured, bore interest at 1.5% per annum and was convertible into fully-paid ordinary shares of GDC Holdings Limited (or of the Company) at HK\$31.2 per share (subject to adjustments as stipulated in the Subscription Agreement). In the case that the Company's shares are listed on the GEM, the conversion of the Convertible Note is compulsory. On 28th March, 2003, the Group redeemed the Convertible Note at 104% of the outstanding principal with accrued interest pursuant to the Subscription Agreement.

- (c) At 31st December, 2001 and 2002 and 31st January, 2003, the Group's finance lease liabilities were payable as follows:

	Group		
	As at		As at
	31st December,		31st January,
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	757	5,038	5,621
In the second year	924	5,416	5,963
In the third to fifth year	<u>814</u>	<u>2,416</u>	<u>2,642</u>
	2,495	12,870	14,226
Current portion of obligations under finance leases	<u>(757)</u>	<u>(5,038)</u>	<u>(5,621)</u>
	<u>1,738</u>	<u>7,832</u>	<u>8,605</u>

The reconciliation between the total minimum lease payments and the present value of finance lease obligations is as follows:

	Group		
	As at		As at
	31st December,		31st January,
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Total minimum lease payments repayable			
— within one year	975	6,033	6,703
— in the second year	1,056	5,891	6,477
— in the third to fifth year	<u>854</u>	<u>2,492</u>	<u>2,727</u>
	2,885	14,416	15,907
Less: future finance charges on finance leases	<u>(390)</u>	<u>(1,546)</u>	<u>(1,681)</u>
Present value of finance lease obligations	<u>2,495</u>	<u>12,870</u>	<u>14,226</u>

(27) Amounts due from/to Global Digital Creations Limited

The balances were unsecured, interest-free and had no fixed repayment terms. On 27th and 28th November, 2002, amounts due to GDC of HK\$74,916,000 were applied to offset against the novation of Convertible Note (section V note 26(b)) and loans from shareholders (section V note 22) and other loans (section V note 23) to GDC Holdings Limited and the remaining balance of HK\$40,644,000 as at 28th November, 2002 was capitalized as share capital of GDC Holdings Limited pursuant to the Reorganization (section V note 25(a)) which was deemed to be effected prior to 1st January, 2001.

(28) Deferred taxation

Deferred income tax assets are recognized for tax loss carry forward and other deductible temporary difference to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31st December, 2001 and 2002 and 31st January, 2003, the Group has unrecognized tax losses of nil, HK\$314,000 and HK\$323,000 respectively to carry forward against future taxable income; these tax losses will have no expiry date. In addition, the Group has unrecognized temporary difference arising from unrealized profit resulting from intra-group transactions of HK\$3,688,000, HK\$11,794,000 and HK\$11,794,000 as at 31st December, 2001 and 2002 and 31st January, 2003 respectively; the Group did not recognize the deferred asset for such deductible temporary difference as the utilization of the temporary difference is uncertain.

(29) Notes to consolidated cash flow statements

(i) Analysis of changes in financing

	Amounts due (from)/to GDC HK\$'000	Bank loan HK\$'000	Convertible Note HK\$'000	Other loans HK\$'000	Loans from shareholders HK\$'000	Obligations under finance leases HK\$'000
At 1st January, 2001	(19,680)	—	—	—	—	—
Increase in amount due to GDC	30,608	—	—	—	—	—
New loans under finance leases	—	—	—	—	—	2,500
Inception of finance leases	—	—	—	—	—	292
Payment of finance lease obligations	—	—	—	—	—	(297)
At 31st December, 2001	<u>10,928</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,495</u>
At 1st January, 2002	10,928	—	—	—	—	2,495
Increase in amount due to GDC	23,414	—	—	—	—	—
New loans under finance leases	—	—	—	—	—	13,960
Payment of finance lease obligations	—	—	—	—	—	(3,585)
Drawdown of bank loan	—	14,143	—	—	—	—
Novation of Convertible Note and loans	(34,272)	—	7,800	8,500	17,972	—
Increase in loans from shareholders	—	—	—	—	1,674	—
At 31st December, 2002	<u>70</u>	<u>14,143</u>	<u>7,800</u>	<u>8,500</u>	<u>19,646</u>	<u>12,870</u>
At 1st January, 2002	10,928	—	—	—	—	2,495
Increase in amount due to GDC	2,963	—	—	—	—	—
Payment of finance lease obligations	—	—	—	—	—	(66)
As 31st January, 2002	<u>13,891</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,429</u>
At 1st January, 2003	70	14,143	7,800	8,500	19,646	12,870
New loans under finance leases	—	—	—	—	—	1,858
Payment of finance lease obligations	—	—	—	—	—	(502)
Increase in loans from shareholders	—	—	—	—	31	—
At 31st January, 2003	<u>70</u>	<u>14,143</u>	<u>7,800</u>	<u>8,500</u>	<u>19,677</u>	<u>14,226</u>

(ii) *Major non-cash transactions*

During the year ended 31st December, 2001, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of approximately HK\$292,000.

During the year ended 31st December, 2002, an amount of HK\$74,916,000 due to GDC was applied to offset against the novation of Convertible Note and loans from shareholders and other loans to GDC Holdings Limited with the remaining balance of HK\$40,644,000 being capitalized pursuant to the Reorganization (section V note (27)) which was deemed to be effected prior to 1st January, 2001.

In addition, share issuance costs of HK\$3,232,000 and HK\$3,132,000 payable as at 31st December, 2002 and 31st January, 2003 were accounted for as a deduction from equity.

(30) **Commitments**(i) *Capital commitments*

At 31st December, 2001 and 2002 and 31st January, 2003, the Group had the following capital commitments relating to leasehold improvements:

	As at 31st December, 2001 HK\$'000		2002 HK\$'000	As at 31st January, 2003 HK\$'000
Authorised but not contracted for	—	—	—	—
Contracted but not provided for	—	247	—	247
	—	247	—	247

At 31st December, 2002 and 31st January, 2003, the Company did not have any significant capital commitments.

(ii) *Operating lease commitments*

The Group had total future minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	As at 31st December, 2001 HK\$'000		2002 HK\$'000	As at 31st January, 2003 HK\$'000
Within one year	2,517	3,000	3,010	3,010
In the second to fifth year inclusive	4,261	3,913	3,689	3,689
	6,778	6,913	6,699	6,699

At 31st December, 2002 and 31st January, 2003, the Company did not have any significant operating lease commitments.

(iii) On 16th December, 2002, the Group entered into an agreement with Adlabs Films Limited (“Adlabs”), a third party, for the proposed acquisition of 8% equity interest in Adlabs D2C Applications Pvt Ltd, a wholly owned subsidiary of Adlabs, at a consideration of US\$1,000,000 (equivalent to approximately HK\$7,800,000) (the “Acquisition”). The Acquisition is conditional upon the successful listing of the Company’s shares on the GEM and fulfilment of certain conditions as stipulated in the agreement.

(31) Contingent liabilities

At 31st December, 2002 and 31st January, 2003, the Group and the Company had no significant contingent liabilities.

(32) Distributable reserve of the Company

The Company was incorporated on 9th October, 2002 and accordingly, there was no reserve available for distribution to its shareholders as at 31st December, 2001.

As at 31st December, 2002 and 31st January, 2003, the Company had reserves of approximately HK\$5,027,000 representing contributed surplus and deduction of share issuance costs. Under the Companies Act 1981 of Bermuda, 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.

VI PARTICULARS OF SUBSIDIARIES

As at 31st January, 2003, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company. All subsidiaries have adopted 31st December as their financial year end date. Details of the subsidiaries are as follows:

Company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/registered capital	Attributable equity interest	Principal activities
Direct subsidiary:				
GDC (BVI) Limited	British Virgin Islands (“BVI”) 14th November, 2002	521,418,075 ordinary shares of US\$0.01 each	100%	Investment holding
Indirect subsidiaries:				
GDC Holdings Limited	BVI 3rd September, 2002	521,418,075 ordinary shares of US\$0.01 each	100%	Investment holding
GDC China Limited	Hong Kong 14th January, 2000	2 ordinary shares of HK\$1 each	100%	Investment holding
GDC Technology Limited	BVI 29th December, 1999	1 ordinary share of US\$1	100%	Provision of computing solutions for digital content distribution and exhibitions

Company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/registered capital	Attributable equity interest	Principal activities
GDC Technology Pte. Ltd (formerly known as Cycle Flow Pte. Ltd)	Singapore 7th September, 2000	2 ordinary shares of S\$1 each	100%	Provision of administrative services to group companies
GDC Entertainment Limited (formerly known as GDC Enterprises Limited)	BVI 29th December, 1999	3,510 ordinary shares of US\$1 each	100%	Animation investment, licensing and merchandising distribution
環球數碼媒體科技研究(深圳)有限公司	PRC 17th August, 2000	US\$2,000,000	100%	Provision of computer graphics and animation training, development of multimedia software and hardware, and provision of related technical consultancy services

VII SUBSEQUENT EVENTS

Other than those disclosed elsewhere in the Financial Information, the following significant events took place subsequent to 31st January, 2003:

- (i) On 23rd January, 2003, the Group entered into an agreement with 湛江市東海龍騰實業有限公司 (“Zhanjiang Dong Hai”) pursuant to which Zhanjiang Dong Hai agreed to invest in IDMT for an amount of RMB2,000,000 (equivalent to approximately HK\$1,886,000) of which RMB1,000,000 and RMB300,000 (equivalent to approximately HK\$943,000 and HK\$283,000) were received by the Group in January 2003 and March 2003 respectively (“Zhanjiang Dong Hai Investment”). Pursuant to the agreement, the Group has undertaken to convert the Zhanjiang Dong Hai Investment into the Company’s shares at a conversion rate of 75% of the issue price upon listing of the Company’s shares on the GEM or other stock exchanges (the “Zhanjiang Dong Hai Shares Conversion”), subject to conditions as stipulated in the agreement. Should the Zhanjiang Dong Hai Shares Conversion fail to take place within one year from the date of listing of the Company’s shares, the Group shall buy back the Zhanjiang Dong Hai Investment at 105% from Zhanjiang Dong Hai.

The Group and Zhanjiang Dong Hai subsequently agreed to cancel the Zhanjiang Dong Hai Investment and Zhanjiang Dong Hai was entitled to demand for the repayment of RMB1,300,000 from 30th July, 2003 onwards.

- (ii) On 21st March, 2003, banking facilities of RMB30,000,000 (equivalent to approximately HK\$28,286,000) have been obtained by IDMT from Shenzhen Commercial Bank in Shenzhen (“SCB Facilities”) and the Group has drawn down an amount of RMB15,000,000 on the same date.

The SCB Facilities are guaranteed by CIGG (the “SCB Guarantee”) and will be expired on 21st March, 2005. The guarantee given by CIGG shall be effective for three years after the expiry of the SCB Facilities. The Company and Mr. Raymond Dennis Neoh have given counter-guarantees to CIGG and GDC China Limited has pledged its entire interest in the registered capital of IDMT (“SCB Asset Pledge”) to CIGG for the repayment of all the debts incurred by CIGG for which CIGG is liable under the SCB Guarantee. The counter-guarantees given by Mr. Raymond Dennis Neoh and the Company and the SCB Asset Pledge provided by GDC China Limited will remain effective until IDMT has repaid all the debts under the SCB Facilities.

The Directors confirm that the maximum amount agreed to be guaranteed by CIGG shall at no time exceed RMB30,000,000. Accordingly, there were no unutilised banking facilities available under the BOC Facilities and the SCB Facilities subsequent to the drawdown of RMB15,000,000 each.

- (iii) On 28th March, 2003, the Group obtained a term loan of HK\$2,000,000 from Kingsway SW Finance Limited, a fellow subsidiary of Cyber Prime Developments Limited, a shareholder of the Company. The term loan bears interest at best lending rate as quoted by Standard Chartered Bank 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 Company’s shares are listed on the GEM. Each of Upflow Holdings Limited, a shareholder of the Company, and Mr. Anthony Francis Neoh, a shareholder and director of the Company, have pledged their entire shareholdings in the Company as securities for the term loan. The loan was subsequently repaid on 26th June, 2003.
- (iv) On 19th March, 2003, the Company entered into an agreement with 上海新長寧(集團)有限公司 (“Shanghai Xin Chang Ning”) pursuant to which Shanghai Xin Chang Ning agreed to subscribe for and the Company agreed to issue 1% of the Company’s shares to Shanghai Xin Chang Ning for a cash consideration of US\$1,000,000.

Pursuant to an agreement dated 23rd April, 2003 entered into between the Group and Shanghai Xin Chang Ning, Shanghai Xin Chang Ning agreed to invest in IDMT for an amount of RMB8,270,000 (equivalent to approximately HK\$7,797,000) (“Shanghai Xin Chang Ning Investment”) which was received by the Group in April 2003 (“Investment Date”). The Group has undertaken to convert the Shanghai Xin Chang Ning Investment into the Company’s shares at a conversion rate of 75% of the issue price upon listing of the Company’s shares on the GEM or other stock exchanges (the “Shanghai Xin Chang Ning Shares Conversion”), subject to conditions as stipulated in the agreement. Should the Shanghai Xin Chang Ning Shares Conversion fail to take place within one year from the Investment Date, the Group shall buy back the Shanghai Xin Chang Ning Investment at 105% from Shanghai Xin Chang Ning.

Pursuant to a cancellation agreement dated 25th June, 2003, the Group and Shanghai Xin Chang Ning agreed to cancel the agreements entered into between both parties and the Group shall repay RMB8,270,000 to Shanghai Xin Chang Ning before 30th June, 2004.

- (v) In May 2003, the Group obtained an overdraft facility from a bank of HK\$2,900,000 which is secured by a pledge of time deposit of approximately HK\$3,120,000.
- (vi) On 10th June, 2003, the Company entered into a subscription agreement (“Overseas Chinese Town Agreement”) with Overseas Chinese Town and Upflow Holdings Limited as a guarantor pursuant to which Overseas Chinese Town agreed to subscribe for 2,302,681 new shares of the Company of HK\$0.01 each, which shall represent a 4.87% of total enlarged share capital of the Company upon listing of the Company’s shares on the GEM, for a consideration of HK\$28,500,000. Under the Overseas Chinese Town Agreement, should the Company’s shares fail to be listed on the GEM on or before 30th November, 2003, Overseas Chinese Town will be entitled to exercise a buyback option pursuant to which the Company is obliged to repurchase the 2,302,681 new shares subscribed by Overseas Chinese Town at HK\$28,500,000 plus interest at London Interbank Offer Rate over the relevant period. 2,302,681 shares of the Company of HK\$0.01 each were allotted to Overseas Chinese Town on 26th June, 2003.
- (vii) On 12th June, 2003, the Company entered into a subscription agreement (“CITIC Agreement”) with CITIC pursuant to which CITIC agreed to subscribe for 945,311 new shares of the Company of HK\$0.01 each, which shall represent a 2% of total enlarged share capital of the Company upon listing of the Company’s shares on the GEM, for a consideration of HK\$11,700,000. 945,311 shares of the Company of HK\$0.01 each were allotted to CITIC on 25th June, 2003.

VIII SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of its subsidiaries in respect of any period subsequent to 31st December, 2002.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong