

**GRANT SHERMAN APPRAISAL LIMITED**

23rd July, 2003

The Directors  
Global Digital Creations Holdings Limited  
Suite 1205, 625 King's Road  
North Point  
Hong Kong

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central  
Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of the film title "Thru the Moebius Strip" (the "Film Title") as of 30th April, 2003, based solely on its projected theatrical revenue, excluding other sources of possible revenue such as DVD sale, publishing, merchandising, video gaming and other derivative products.

Business enterprise value is defined for this appraisal as the total invested capital, excluding debts but including shareholders' loans, and is equivalent to shareholders' equity plus shareholders' loans. The fair market value of the film title "Thru the Moebius Strip" is derived based on the expected free cash flows to which the owner(s) of this film title will be entitled to after taking into accounts the effect of a discount for lack of marketability of the shares in the film title.

The purpose of this appraisal is to express an independent opinion of the fair market value of the film title "Thru the Moebius Strip" as of 30th April, 2003. It is our understanding that this appraisal will be used for the purpose of assessing the carrying value of Production work-in-progress that appears in the Company's financial statements as at 31st January, 2003 which will be incorporated into a prospectus.

**INTRODUCTION****The Group**

Global Digital Creations Holdings Limited together with its subsidiaries, GDC China Limited, GDC Entertainment Limited and GDC Technology Limited (collectively the "Group") are principally engaged in the business of digital content development via computer graphics ("CG") creation and production, digital content distribution and exhibitions, and imaging applications via introduction of proprietary digital cinema and derivative technologies. The Group also provides computer animation training courses. The Group targets the global markets in relation to its digital content development business.

The Group commenced operation in March 2000 following the acquisitions of the entire interests in the three subsidiaries. At the time of acquisition, GDC China Limited was already in operation, and GDC Entertainment Limited had already obtained all the copyrights and all other rights, title and interest in and to a movie called *Thru the Moebius Strip* and engaged the services of various key personnel for the production thereof.

**GDC Entertainment Limited**

GDC Entertainment Limited (the “Company” and formerly known as GDC Enterprises Limited) was incorporated in the British Virgin Island on 29th December, 1999. The Company is principally engaged in animation investment, licensing and merchandising distribution. The main sources of revenue for the Company include:

- fees in relation to production of CG movies, television programs, commercials and games;
- box office receipts and sales of videos, DVDs and tapes, television broadcasting, satellite broadcasting and cable broadcasting from its production; and
- receipts from merchandising and the publishing rights on its intellectual property and licensing fees and sale receipts for games derived from its production.

The Company has already obtained all the copyrights and all other rights, title and interest in and to a movie called *Thru the Moebius Strip* and engaged the services of various key personnel for the production thereof. Currently over 100 animators and digital artists are working on the CG production of *Thru the Moebius Strip*, and the directors of the Company expect that the film will be completed on the last quarter of 2003 for release in the first quarter of 2004.

**Thru the Moebius Strip**

*Thru the Moebius Strip (the “Film”)* is a 3D animated CG film based on a concept created by Jean Moebius Giraud, a noted science-fiction author, about a physicist who gets trapped in a space-time portal and needs to be rescued by his son. The Group, through the Company, has obtained the right of production of the Film and all the intellectual property rights in relation thereto including copyrights and all other intangible rights throughout the world in and to the Film.

Jean Moebius Giraud is a French graphic novelist and is no stranger to Hollywood. He has produced conceptual designs and storyboards for such science fiction classics such as *Tron*, *Alien (1979)*, *The Abyss (1989)*, and *The Fifth Element (1997)*. Mr. Giraud is heavily involved in the initial sketches and storyboard of the Film while James Cox, a Hollywood director of *Highway (2001)* and *Wonderland (2003)* is the script writer of the Film.

According to the management of the Company, around 70% of the work on the Film is completed as of the appraisal date, and the Film is expected to be released globally in early 2004. There will be several major revenue streams for the Film Title:

- Theatrical sale (box office revenue through distributors)
- Sale of DVD and video
- Sale to TV stations as MOW (movie of the week)
- Merchandising income
- Publishing
- Video Gaming and other derivative products.

The Company has already short-listed distribution agents throughout the world for Theatrical sale and is in the final stage of negotiation on distribution agreements.

As per the Group's instruction, we only take into account the Theatrical sale revenue in the valuation of the Film Title in this engagement.

### **BASIS OF VALUATION AND ASSUMPTIONS**

We have appraised the fair market value of the Film Title on the basis of fair market value. Fair market value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the management of the Company with regards to the history, production, operations and prospects of the Film and the CG industry. We also studied the current condition of global CG industry and reviewed the business plan (the "Business Plan") and a five-year revenue estimate of the Film (the "Revenue Estimate") furnished by the management of the Company. There are three scenarios, namely the Low, Medium and High Scenario, in the Revenue Estimate, reflecting estimated revenues from the Film Title under different market outlook. During the valuation process, we reviewed other relevant legal documents, contracts and other correspondences. We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Company are true and accurate. We reviewed the Business Plan, however, due to the uniqueness of the Film and relatively short operating history of the Company, we are not in a position to comment on the Business Plan. The Revenue Estimate was prepared by the Company, with the assistance of Columbia Pictures in the United States and Senator International Inc., a Cannes company principally engaged in financing and distributing studio feature films on a worldwide basis, and reviewed by professional film distribution agent in the United States. These agents concur with the reasonableness of the revenue projection of all the revenue streams in the Revenue Estimate after taking into account the storyline, the Moebius brand and the screenplay of the Film and the CG market. It is reasonable to assume that the Business Plan and the Revenue Estimate provided by the management of the Company were prepared with due care and consideration. Before arriving at our opinion of value, we have considered the following principal factors:

- the nature and the prospect of the global CG industry;
- the financial condition of the Company and the Group;
- the historical operating results and book value of the Group;
- the economic outlook in general and the specific economic and competitive elements affecting the Film, the CG and digital cinema industry;
- the market-derived investment returns of entities engaged in a similar line of business; and
- the business risks of the Film and the Company.

Due to the changing environment in which the Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

- there will be no major adverse changes in the existing political, legal, and economic conditions in the territories in which the Company will carry on its business;
- there will be no major changes in the current taxation law in the territories the Company conducts the business, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the Company can keep abreast of the latest technological development in the CG and digital content distribution market such that its competitiveness and profitability can be sustained;
- the availability of finance will not be a constraint on the production and completion of the Film in accordance to the Business Plan of the Company;
- the Business Plan and Revenue Estimate has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the Company;
- the technology to be utilized by the Company in implementing the Business Plan will be viable and successfully deployed;
- the Company will retain and have competent management, key personnel, and technical staff to implement its business plan and to support its ongoing operation; and
- industry trends and market conditions for the relevant industries will not deviate significantly from current economic forecasts.

### VALUATION METHODOLOGY

The fair market value of the Film Title was developed through the application of the income approach technique known as the discounted cash flow method. In this method, the value depends on the present worth of future economic benefits to be derived from ownership of the equity and shareholders' loan, if any, in the Film Title. Thus, an indication of value was developed by discounting future free cash flows to be generated by the Film Title to their present worth at market-derived rates of return appropriate for the risks and hazards of the similar business.

A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of available alternative investments that are comparable in terms of risk and other investment characteristics. When developing the discount rate to apply to the future economic income streams attributable to shareholders, the discount rate is the cost of equity. The cost of equity was developed using Capital Asset Pricing Model ("CAPM"), a model widely used by the investment community. CAPM states that an investor requires excess returns to compensate for any risk correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated with the return from the stock market are referred to as systematic; other risks are referred to as nonsystematic. Under CAPM, the appropriate rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the systematic risk assumed.

In deriving the discount rate appropriate for the Film, we have taken into consideration of the financial condition, country risk, business risk, and the development risk specific to the Company, apart from the systematic risk associated with the overall equity market. Upon using the CAPM, we have selected comparable companies which are in the CG industry. We confirm that the methodology used conforms to the valuation theory, and the parameters used are within the industry norm. We concluded that the discount rate of 26% is appropriate for the valuation of the Film Title.

### **Additional valuation consideration**

To reflect the additional risk associated with an intangible asset relative to the overall business enterprise, an additional risk premium has been considered.

#### *Intangible asset risk premium*

Intangible assets are considered to be the highest risk asset components of an overall business enterprise. These assets may have little, if any, liquidity, and poor versatility for redeployment elsewhere in the business. This increases their risk. A higher rate of return on these assets therefore is required.

### **RISK FACTORS**

Readers of this report should note that this valuation is based on many assumptions that could not be easily assessed due to the limited operating history of the Group and lack of close comparable films and companies. The success of the Film will largely hinge on the successful financing, completion of production and release of the Film on time, viable technology, penetration and market acceptance of 3D CG movie. The risks associated with the Film Title relate to the successful release and box office receipts of the Film. Uncertainties result from financing risk, limited operating history, technology and implementation risks, qualities of the animation to be delivered and other risks that may not currently be contemplated. This valuation is based on the hypothesis that the Film will be released globally in accordance with the Company's projected timetable.

### **CONCLUSION OF VALUE**

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of 30th April, 2003 the fair market value of the Film Title is reasonably stated by the amount of US\$8,700,000 (approximately HK\$67,860,000) in the LOW Scenario, US\$18,400,000 (approximately HK\$143,520,000) in the MEDIUM Scenario, and US\$29,900,000 (approximately HK\$233,220,000) in the HIGH Scenario.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the securities of the Group, the Company, the Film or the value reported.

Respectfully submitted,  
For and on behalf of  
**GRANT SHERMAN APPRAISAL LIMITED**  
**Keith C.C. Yan, ASA**  
*Managing Director*

*Note:* Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation of various industries (including entertainment and media industry), in the Greater China region for various purposes since 1988.

## CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- Anyone provided significant assistance to the person signing this certification is identified in the report.

**Keith C.C. Yan, ASA**