

(Incorporated in Bermuda with limited liability)

# PUBLIC OFFER AND PLACING



ASIA INVESTMENT CAPITAL LIMITED





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Lead Manager and Bookrunner



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# IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



# **Global Digital Creations Holdings Limited**

環 球 數 碼 創 意 控 股 有 限 公 司<sup>\*</sup>

(incorporated in Bermuda with limited liability)

## LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

Number of New Shares under the New Issue : Number of Placing Shares : Number of Public Offer Shares : Issue Price :

the New Issue : 66,300,000 Shares Placing Shares : 58,300,000 Shares (subject to reallocation) c Offer Shares : 8,000,000 Shares (subject to reallocation) Issue Price : HK\$1.00 per Share Nominal value : HK\$0.01 each Stock code : 8271

Sponsor



ASIA INVESTMENT CAPITAL LIMITED

Joint Financial Advisers



**CM-CCS Securities Limited** 

<u></u> 集 運 富

Kingsway Capital Limited

Lead Manager and Bookrunner



Underwriters

**CM-CCS Securities Limited** 

Quest Stockbrokers (HK) Limited CSC Securities (HK) Limited Quam Securities Company Limited Asia Investment Capital Limited Sanfull Securities Limited Hong Tong Hai Securities Limited

Tai Fook Securities Company Limited Crosby Limited Chun Yick Securities Limited First Asia Finance Group Limited DL Brokerage Limited Partners Capital International Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrars of Companies" in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. A copy of the prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrars of Companies" will be filed with the Registrar of Companies in Bermuda. The Securities and Futures Commission of Hong Kong and the Registrars of Companies in Hong Kong and Bermuda take no responsibility as to the contents of this prospectus or any other documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

Prospective investors of the New Shares should note that the Sponsor (on behalf of the Lead Manager and the Underwriters) is entitled to terminate the Underwriters' obligations under the Underwriting Agreement by notice in writing to the Company given upon the occurrence of any of the events set forth in the paragraph headed "Grounds for termination" in the section headed "Underwriting" of this prospectus at any time prior to 9:00 a.m. (Hong Kong time) on the Despatch Date.

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed companies.

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# EXPECTED TIMETABLE

# If there is any change in the following expected timetable, the Company will publish a separate announcement.

2003 (Note 1)
Application lists open (Note 2)
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms 12:00 noon on Monday, 28th July
Application lists close
Announcement of the levels of indication of interest in the Placing, the results of applications in respect of the Public Offer and basis of allotment of the Public Offer Shares and the number of Shares, if any, reallocated between the Placing and the Public Offer to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and the GEM website at <i>www.hkgem.com</i>
Despatch of share certificates and refund cheques in respect of wholly or partially unsuccessful applications on or before ( <i>Notes 3 to 5</i> ) Friday, 1st August
Deposit of shares certificates in CCASS Friday, 1st August
Dealings in the Shares on GEM expected to commence on Monday, 4th August

Notes:

- 1. All dates and times refer to Hong Kong local time except as otherwise stated.
- 2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 28th July, 2003, the application lists will not open and close on that day. Further information is set out in the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for the Public Offer Shares" in this prospectus.
- 3. Applicants who apply on WHITE application forms for 1,000,000 Shares or more under the Public Offer and have indicated in their application forms that they wish to collect refund cheques and (where applicable) share certificates in person from the Company's branch share registrar, Standard Registrars Limited, may do so in person from 9:00 a.m. to 1:00 p.m. on 1st August, 2003. Identification and (where applicable) authorization documents acceptable to Standard Registrars Limited must be produced at the time of collection.
- 4. Applicants who apply on YELLOW application forms for 1,000,000 Shares or more under the Public Offer may collect their refund cheque, if any, in person but may not elect to collect their share certificates, which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or investor participant stock accounts, as appropriate. The procedure for collection of refund cheques for yellow application form applicants is the same as those for white application form applicants.
- 5. Uncollected share certificates and refund cheques will be dispatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms. Further information is set out in the paragraph headed "Collection/posting of share certificates(s)/refund cheque and deposit of certificates into CCASS" under the section headed "How to apply for the Public Offer Shares" in this prospectus.
- 6. No temporary documents of title will be issued.

For details of the structure and conditions of the New Issue, please refer to the section headed "Structure and conditions of the New Issue" of this prospectus.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised any person to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Directors, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the New Issue.

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This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Company.

There are risks associated with any investment. Some of the particular risks in investing in the Company are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Company.

#### BUSINESS

The Group's business activities represent an integration of the entire value chain in the digital content business, encompassing creation, production (for its own projects and projects contracted to it by third parties) and distribution of digital contents, in order to meet two developing global trends of (i) strong continuing growth in demand for digital contents, particularly CG imaging; and (ii) a paradigm shift from a chemical film based medium to an electronic, digital medium in the cinema industry.

To compete in the high value end, the Group has established a training facility designed to produce a continuous supply of skilled and reasonably priced manpower for CG production and has also created a production house which has substantially completed (as to approximately 70%) a full length CG 3D animated movie in high definition namely, *Thru the Moebius Strip*. *Thru the Moebius Strip* is a science fiction/fantasy epic story about a search by Jac Weir for his father Simon Weir, a physicist, who becomes lost and trapped in a distant planet after he crossed a space-time portal. The CG creation and production business, together with the training facility, positions the Group as a global player capable of leveraging on the lower cost human resources in the Asian region, particularly in China.

The Group's self-developed digital cinema technology (all technology relating to DSR<sup>TM</sup> Digital Film Agile Encoders and DSR<sup>TM</sup> Digital Film Servers) is leading the paradigm shift away from film based distribution and uniquely positions the Group as a player in the distribution chain.

The Group targets the global markets in relation to its CG creation and production business. In terms of its digital content distribution and exhibition business, it is initially targeting the PRC (in key cities such as Shanghai and Beijing) and Asia Pacific markets (such as India, Hong Kong and Singapore).

#### CG creation and production

The core operations of the Group's CG creation and production business involve the operation of a production pipeline. The Group has brought in supervisory personnel in CG production from Hollywood and Hong Kong, with a view to developing a studio capable of implementing the Group's CG projects. The Group's production facilities in Shenzhen, the PRC are capable of storyboarding, production design and props development, computer animation and special effects. Up to the Latest Practicable Date, no revenue has been generated from CG creation and production yet.

#### Digital content distribution and exhibitions

The Directors believe that a successful digital content company must integrate vertically its CG creation and production business into distribution of digital contents. The Directors estimate that there are over 1,000 screens in cinemas throughout the PRC. The Group has started the business of digital content distribution and exhibitions in Shanghai, the PRC and Mumbai, India and intends to further target the markets of Hong Kong, Singapore and the US. The Group has developed proprietary technologies for a variety of digital content imaging applications, including digital cinema exhibition system, a network-based

digital content distribution for live and recorded programs, gaming and video on demand. These technologies are also used by, and are forming part of, the production pipelines for the Group's CG creation and production.

#### **Provision of CG training courses**

The number of highly skilled and motivated digital artists is limited in the PRC. In order to secure a stable supply of CG creation and production staff for the Group's CG projects, the Group organizes CG training courses in Shenzhen in cooperation with Shenzhen University, the PRC. The Group deploys an experienced team of technical and creative professionals to provide guidance to students and has produced a series of Chinese books for its courses. In February 2003, the Group entered into an agreement with Shanghai Xin Chang Ning for, among other things, the provision of CG training in Shanghai. In March 2003, the Group started to organize CG training courses in Shanghai.

Further details of the Group's principal business are set out in the paragraph headed "Description of business" in the section headed "Business" of this prospectus.

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#### **REVENUE MODEL**

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

Revenue model for existing business

Nature of business	Source of revenue	Basis of charge	Rev	enue recognition	Payment terms offered
(1) Digital content distribution and exhibitions	Revenue from sale and maintenance of equipment, franchise and management fees and rentals for digital cinemas and digital content imaging applications	Governed by contract terms		is recognized upon delivery of equipment to customers;	Customers of sale of equipment will be required to settle the invoices in cash or by way of letters of credit prior to delivery or be given a short credit
			(ii)	revenue from maintenance of equipment is recognized on a straight-line basis over the period of maintenance;	period of a maximum of 30 days from the date of invoices. Maintenance fees, franchise and management fees and rentals are to be settled within 10 days
			(iii)	franchise and management fees are recognized on a straight-line basis over the period of the service; and	after each calendar quarter end
			(iv)	rental income is recognized on a straight-line basis	

Nature of business	Source of reven	nue	Basis of	charge	Revei	nue recognition	•	ment ns offered
	Share of box of receipts from sh films and altern programs such a and sport events cinemas	nowing ative as lectures	Governed	l by contract	recog submi	ffice receipts are nized upon ission of cinema tors' statements	peri cine the as the requ to the according banh subr cine	re will be no credit od offered to ma operators for box office receipts he receipts are hired to be credited he Group's bank bunts by way of a transfers upon mission of the ma operators' ements
(2) Provision of CG training courses	Share of tuition CG training cou		Governed terms	l by contract		are recognized he period of the e	mad com	ment must be le in full at the mencement of the ning courses
Revenue model for	r future business							
Nature of business	Source of revenue	Basis of	charge	Revenue recognition		Payment terms offered	( 1	Estimated commencement time of cash receipt
(1) CG creation and production	Fees from production of movies, television, commercials and games contracted to it by third parties	Governed contract	•	Fees are recognized v services are rendered and reference to of completio where approp	l with stages on	Settlement is required within a agreed timefram usually within 30 days from the da of invoices	an e, 0	December 2003
	Box office receipts and sale of videos, DVDs, games, television broadcasting, satellite broadcasting and cable broadcasting from productions in which the Group has an interest	contract	5	Box office re are recognize when the dig motion pictu exhibited. Re from sale of videos, DVD games are recognized u availability of by distributo retailers. Revenue from	ed gital res are evenue Os and upon of sale ors/	Payment is due a payable within 3 days from the da of invoices	0	June 2004
				licensing of productions is broadcasting recorded whe material is available for broadcasting the licensee when the ter the licensing agreement an	for is en the by and ms of			

Nature of business	Source of revenue	Basis of charge	<b>Revenue</b> recognition	Payment terms offered	Estimated commencement time of cash receipt
	Revenue and licensing fees from merchandising and publishing rights on the Group's intellectual property	Governed by contract terms	Revenue is recognized when the underlying royalty income is earned	Payment is due and payable within 30 days from the date of invoices	August 2004
(2) Digital content distribution and exhibitions	Fees from cinema advertising which are expected to be predominately solicited by the cinemas	Governed by contract terms	Fees are recognized upon submission of cinema operators' statements	There will be no credit period offered to cinema operators for the box office receipts as the receipts are required to be credited to the Group's bank accounts by way of bank transfers upon submission of the cinema operators' statements	January 2004
(3) Provision of CG training courses	Share of franchise fee from CG training courses	Governed by contract terms	Fees are recognized on an accrual basis in accordance with the substance of the relevant agreement	Payment is due and payable within 30 days from the date of invoices	June 2005

### **COMPETITIVE EDGE**

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

- the integration of pre-production facilities (comprising a team of sculptors, graphic designers and storyboard artists) coupled with the CG production studio makes the Group self sufficient in an efficient manner;
- research and development capabilities in CG and CG film production as the Group develops most of its own software tools for CG production;
- a stable pool of digital artists cultivated by the Group through its training courses (as demonstrated by the number of graduates ultimately employed by the Group);
- senior management with over 15 years of experience and business network in the CG industry to facilitate the sourcing of CG works and establishment of business relationships with industry partners;
- collaborations with Shenzhen University, CFG, Sony Pictures Imageworks and TI;
- lower labour costs in CG film making of the Group as compared to those in the US;

- well developed production pipeline which consists of well-defined workflow and working cells/ modules with sophisticated internal supervisory control;
- proprietary DSR<sup>TM</sup> technologies in digital film processing, encryption, compression, storage, delivery and distribution; and
- employment of over four overseas technical and creative professionals (who all have past experience in Hollywood's film industry) for CG production.

### **OVERALL BUSINESS OBJECTIVES**

The overall business objective of the Company is to become a leader in the CG creation and production and digital content distribution and exhibition industry in Asia. To achieve the Company's overall business objective, the Directors have formulated the following business strategies in respect of the Group's business segments of CG creation and production, digital content distribution and exhibitions and provision of CG training courses.

### CG creation and production

- Enhance the Group's international recognition with a pipeline of high profile production
- Establish a merchandising arm
- Operate a games development and publication base
- Operate a magazine and comics base
- Develop further intellectual property in conjunction with international partners

### Digital content distribution and exhibitions

- Market the Group's end-to-end digital cinema solution
- Maintain quality and continue to enhance profit margin by lowering costs
- Further penetrate the PRC market, initially in key cities such as Shanghai and Beijing
- Penetrate the Asia Pacific digital cinema markets, in particular, in India, Hong Kong and Singapore
- Expand into the US market, initially in California
- Develop upstream and downstream products, including development of a network-based digital entertainment system for the seamless delivery of movies, games, and other entertainment content, employing the Group's compression, cryptography, delivery and distribution technologies
- Conduct further research, enhancement and development of higher technical specifications for digital cinema technology

### **Provision of CG training courses**

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

Please refer to the section headed "Statement of business objectives" of this prospectus for details of the Group's business strategies and the implementation schedule for the period from the Latest Practicable Date to 31st December, 2005.

### TRADING RECORD

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

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

Notes:

- During the Track Record Period and the one month ended 31st January, 2002, all of the Group's turnover was derived in the PRC.
- (2) The calculation of loss per Share is based on the consolidated loss for the year/period of approximately HK\$10,317,000 and HK\$17,429,000 for the years ended 31st December, 2001 and 2002 and HK\$1,012,000 and HK\$1,890,000 for the one months ended 31st January, 2002 and 2003 respectively, and on the number of 40,000,000 Shares deemed to be in issue since 1st January, 2001.

#### **REASONS FOR THE NEW ISSUE AND USE OF PROCEEDS**

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

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

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

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

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

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

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

#### Warning:

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

#### NEW ISSUE STATISTICS (Based on the Issue Price of HK\$1.00 per Share)

Market capitalization (Note 1) HK\$7	80 million
Adjusted net tangible asset value per Share (Note 2)	11.84 cents

Notes:

- 1. The calculation of market capitalization is based on the 780,000,000 Shares in issue immediately after the completion of the New Issue and the Capitalization Issue and takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and/or the Sotas Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to under the paragraph headed "Resolutions of the Shareholders passed at the Company's special general meeting held on 18th July, 2003" in appendix V to this prospectus.
- 2. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under the paragraph "Adjusted net tangible assets" in the section headed "Financial information" of this prospectus and on the basis of a total of 780,000,000 Shares in issue immediately after the completion of the New Issue and the Capitalization Issue but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and/ or the Sotas Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to under the paragraph headed "Resolutions of the Shareholders passed at the Company's special general meeting held on 18th July, 2003" in appendix V to this prospectus.

## SHAREHOLDING STRUCTURE AND RESTRICTIONS ON DISPOSAL OF SHARES

		Number of				
		Shares held	Approximate %			
		immediately	of Shares held			
		after the New	immediately after			
		Issue and the	the New Issue and			Lock-up
		Capitalization	the Capitalization	Total	Approximate	period
D	ate of first	Issue but before	Issue but before	investment	average cost/	commencing
er	ntry into the	the exercise of	the exercise of the	amount/	consideration	from the
Name of Shareholders G	froup	the Sotas Option	Sotas Option	consideration	per Share	Listing Date
(1	Note 19)			HK\$	HK\$	

#### Initial Management Shareholders (Note 21)

Upflow Holdings Limited (Note 1)	31st March, 2000	214,122,516	27.5	60,138,000	0.281	12 months
Raymond Neoh (Note 1)	31st March, 2000	214,122,516	27.5	60,138,000	0.281	12 months
Anthony Neoh (Note 2)	31st March, 2000	124,974,230	16.0	35,100,000	0.281	12 months
Chong Man Nang (Note 3)	17th June, 2000	8,331,615	1.1	N/A	N/A	12 months
Forward Strategic (Note 4)	20th January, 2001	61,015,197	7.8	N/A	N/A	12 months
GDC (Note 4)	20th January, 2001	61,015,197	7.8	N/A	N/A	12 months
Upflow Holdings Limited (Note 1)	20th January, 2001	61,015,197	7.8	N/A	N/A	12 months
Raymond Neoh (Note 1)	20th January, 2001	61,015,197	7.8	N/A	N/A	12 months
Bright Oceans Corporation (HK) Limited (Note 5)	26th April, 2001	20,579,090	2.6	19,500,000	0.948	12 months
David Deng Wei (Note 5)	26th April, 2001	20,579,090	2.6	19,500,000	0.948	12 months
Huang Yi (Note 5)	26th April, 2001	20,579,090	2.6	19,500,000	0.948	12 months
Zhang Dong Sheng (Note 5)	26th April, 2001	20,579,090	2.6	19,500,000	0.948	12 months
Richard Yingneng Yin (Note 6)	31st March, 2000	8,331,615	1.1	2,340,000	0.281	12 months

Name of Shareholders	Date of first entry into the Group (Note 19)	Issue and the Capitalization Issue but before	Approximate % of Shares held immediately after the New Issue and the Capitalization Issue but before the exercise of the	investment	Approximate average cost/ consideration per Share <i>HK\$</i>	Lock-up period commencing from the Listing Date
Sotas Limited (Note 7)	10th May, 2000	55,544,102	7.1	25,974,000	0.468	12 months
Morningside CyberVentures Holdings Limited (Note 7)	1st December, 2002	55,544,102	7.1	25,974,000	0.468	12 months
Verrall Limited (Note 7)	1st December, 2002	55,544,102	7.1	25,974,000	0.468	12 months
Perfect Brilliant Limited (Note 8)	21st August, 2002	29,160,654	3.8	8,190,000	0.281	12 months
William Ka Chung Lam (Note 8)	31st March, 2000	29,160,654	3.8	8,190,000	0.281	12 months
Significant Shareholde	ers (Note 22)					
Cyber Prime Developments Limited (Note 9)	21st August, 2002	41,658,077	5.4	11,700,000	0.281	12 months
Billion On Development Limited (Note 9)	30th June, 2003	41,658,077	5.4	11,700,000	0.281	12 months
Festival Developments Limited (Note 9)	30th June, 2003	41,658,077	5.4	11,700,000	0.281	12 months
Kingsway China Holdings Limited <i>(Note 9)</i>	30th June, 2003	41,658,077	5.4	11,700,000	0.281	12 months
SW Kingsway (Note 9)	21st August, 2002	41,658,077	5.4	11,700,000	0.281	12 months

Name of Shareholders	Date of first entry into the Group (Note 19)	Issue and the Capitalization Issue but before	of Shares held immediately after the New Issue and the Capitalization Issue but before the exercise of the	investment	Approximate average cost/ consideration per Share <i>HK</i> \$	Lock-up period commencing from the Listing Date
<b>Public Shareholders</b>						
Financial Outreach Limited (Notes 10 & 23)	31st March, 2000	16,663,231	2.1	4,680,000	0.281	12 months
Daniel Gia Tien Lam (Notes 10 & 23)	31st March, 2000	16,663,231	2.1	4,680,000	0.281	12 months
Christopher Paul Neoh (Notes 11 & 23)	31st March, 2000	10,414,519	1.3	2,925,000	0.281	12 months
Ajitkumar Chandubhai Patel (Note 12)	31st March, 2000	10,414,519	1.3	2,925,000	0.281	N/A
Future United Investments Limited (Note 13)	24th July, 2001	10,289,545	1.3	9,750,000	0.948	N/A
Yeh Chiang Sheng (Note 13)	24th July, 2001	10,289,545	1.3	9,750,000	0.948	N/A
SRI Group Limited (Notes 14 & 23)	25th October, 2002	16,663,231	2.1	5,000,000	0.300	12 months
Heng Fung Capital Company Limited (Notes 14 & 23)	25th October, 2002	16,663,231	2.1	5,000,000	0.300	12 months
Heng Fung Holdings Limited (Notes 14 & 23)	25th October, 2002	16,663,231	2.1	5,000,000	0.300	12 months
Kanwin Corporation (Notes 15 & 23)	25th October, 2002	4,165,808	0.5	1,250,000	0.300	12 months
Victor Yang (Notes 15 & 23)	25th October, 2002	4,165,808	0.5	1,250,000	0.300	12 months
Marketeer Management Limited (Notes 16 & 23)	19th November, 2002	27,772,051	3.6	13,026,000	0.469	12 months
Elizabeth Lee Ka Ying (Notes 16 & 23)	19th November, 2002	27,772,051	3.6	13,026,000	0.469	12 months
Overseas Chinese Town (Notes 17 & 23)	10th June, 2003	38,000,000	4.9	28,500,000	0.750	12 months
CITIC International Assets Management Limited (Notes 18 & 23)	12th June, 2003	15,600,000	2.0	11,700,000	0.750	12 months
Shareholders under the New Issue	N/A	66,300,000	8.5	N/A	1.000	N/A

#### Notes:

1. Upflow Holdings Limited is wholly and beneficially owned by Raymond Neoh, who is an executive Director. Accordingly, Upflow Holdings Limited and Raymond Neoh are Initial Management Shareholders. Raymond Neoh is the younger brother of Anthony Neoh and Christopher Paul Neoh.

On 31st March, 2000, GDC effected three share swaps with Raymond Neoh and Upflow Holdings Limited pursuant to which GDC allotted and issued new shares of GDC to Upflow Holdings Limited in consideration of GDC's acquisitions of certain equity interests in GDC Entertainment Limited, GDC E-Com Limited and DCDC either wholly or partly owned by Raymond Neoh or Upflow Holdings Limited at an aggregate consideration of US\$7,710,000 (equivalent to HK\$60,138,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Upflow Holdings Limited has become a Shareholder. Details of the reorganization are set out in note 20 below.

2. Anthony Neoh is a non-executive Director and is therefore an Initial Management Shareholder. Anthony Neoh is the elder brother of Raymond Neoh and Christopher Paul Neoh.

On 31st March, 2000, GDC effected two share swaps with Anthony Neoh pursuant to which GDC allotted and issued new shares of GDC to Anthony Neoh in consideration of GDC's acquisitions of certain equity interests in GDC E-Com Limited and Forward Strategic from Anthony Neoh at an aggregate consideration of US\$4,500,000 (equivalent to HK\$35,100,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Anthony Neoh has become a Shareholder. Details of the reorganization are set out in note 20 below.

3. Chong Man Nang is a member of the senior management of the Company and is therefore an Initial Management Shareholder.

300,000 new shares of GDC were allotted and issued to Chong Man Nang at nil consideration as a sign-up bonus under the engagement agreement entered into between GDC and Chong Man Nang dated 17th June, 2000.

Pursuant to a reorganization of the Company effected in November and December 2002, Chong Man Nang has become a Shareholder. Details of the reorganization are set out in note 20 below.

4. Forward Strategic is a wholly-owned subsidiary of GDC, which is owned as to approximately 32.4% by Upflow Holdings Limited, which is in turn wholly owned by Raymond Neoh. For further details of the shareholding structure of GDC, please refer to the sub-section headed "Competing interest" in the section headed "Business" in this prospectus. On 8th January, 2001, GDC and Sudden Win Holdings Limited entered into an agreement pursuant to which GDC agreed to sell and Sudden Win Holdings Limited agreed to purchase, 31.605% equity interest in DCDC held in the name of Forward Strategic together with the benefit and obligations of an option to purchase from an another shareholder of DCDC 5% of the entire issued shares of another company. In consideration for the sale of the 31.605% equity interest in DCDC and the assignment of the said option, Sudden Win Holdings Limited shall surrender 3,840,000 shares of GDC (representing approximately 15.8% of the then issued share capital of GDC). Immediately after completion of the agreement, Forward Strategic was interested in 3,840,000 shares of GDC (representing approximately 15.8% of the then issued share capital of GDC) surrendered by Sudden Win Holdings Limited and 21.395% interest in DCDC.

On 24th July, 2001, Forward Strategic transferred 200,000 shares of GDC (representing approximately 0.8% of the then issued share capital of GDC) to Future United Investments Limited, details of which are set out as note 13 below, at a cash consideration of US\$1,000,000.

On 2nd November, 2001, Forward Strategic transferred (i) 170,500 shares of GDC (representing approximately 0.7% of the then issued share capital of GDC) to Future United Investments Limited, details of which are set out as note 13 below, at a cash consideration of US\$250,000; and (ii) 341,000 shares of GDC (representing approximately 1.4% of the then issued share capital of GDC) to Bright Oceans Corporation (HK) Limited, details of which are set out in note 5 below, at a cash consideration of US\$500,000.

Pursuant to a reorganization of the Company effected in November and December 2002, Forward Strategic became a Shareholder. Details of the reorganization are set out in note 20 below.

On 20th March, 2003, the shareholders of Forward Strategic, have by written resolution, adopted a share option scheme ("Scheme") also dated 20th March, 2003, wherein its board is entitled to grant options ("Options") to grantees such that they can purchase Shares from Forward Strategic pursuant to the terms of the Scheme. The grant of such Options is to remunerate the grantees for their contributions made to the Group. Salient terms are as follows:

- (a) the scheme period during which options can be granted by the board of Forward Strategic under the Scheme is from 20th March, 2003 to the Latest Practicable Date. As such, no further Options can be offered or granted after the Latest Practicable Date;
- (b) the exercise price is the amount of HK\$1.00 which is payable to Forward Strategic upon the exercise of any Options (whether in whole or in part);
- (c) the total number of Shares which can be purchased by the grantees from Forward Strategic upon their exercise of their Options is 3,697,331 Shares, which are existing and issued Shares which represented the entire shareholding interest held by Forward Strategic in the Company as at 20th March, 2003, which also represented approximately 9.2% of the issued share capital of the Company as at the Latest Practicable Date. The aforesaid 3,697,331 Shares shall represent 61,015,197 Shares and 7.8% of Shares (held immediately after the new Issue and the Capitalization Issue before the exercise of the Sotas Option);
- (d) the grantees eligible for the Options include any full-time/part-time employees, directors and consultants of the Group;
- (e) subject to the option period of each Option being not more than ten years from the date of grant of the relevant Option, the board of Forward Strategic may in the letters containing the offers of Options impose restrictions on the exercise of the Options so granted;
- (f) as at 20th March, 2003, Options to purchase from Forward Strategic an aggregate 61,015,197 Shares (on the basis that the Capitalization Issue had taken place) have been granted by Forward Strategic;
- (g) as at the Latest Practicable Date, all the grantees to the Scheme (as shall be disclosed hereunder), but save for David Kirschner, with the aggregate number of Options of 59,626,594 Shares, have accepted the offer of their respective Options;
- (h) the Scheme provides that in the event of alteration in the capital structure of the Company prior to the Listing Date or in the event of any alteration in the capital structure by way of consolidation, sub-division or reduction of the share capital of the Company after the Listing Date, whilst any option remains exercisable, except for the issue of Shares as consideration in a transaction, corresponding alterations shall be made to give the grantees the same proportion of equity capital in the Company as to which they were personally entitled, and as the Capitalization Issue was approved by the Shareholders' resolutions passed at the Company's special general meeting held on 18th July, 2003, the Options granted by Forward Strategic as at the Latest Practicable Date were correspondingly altered/adjusted to become Options to purchase an aggregate of 61,015,197 Shares and which options were granted to the following persons in such number as set opposite their names below:

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Directors				
Anthony Neoh	Chairman and a non- executive Director	32,201,692	the date of acceptance of the relevant options to the Latest Practicable Date and from 1 year after the Listing Date to 19th March, 2013	4.12%

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Raymond Neoh	Chief executive officer and an executive Director	4,818,450	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.62%
Richard Yingneng Yin	Non-executive Director	5,387,778	the date of acceptance of the relevant options to the Latest Practicable Date and from 1 year after the Listing Date to 19th March, 2013	0.69%
Senior Management of the Group				
Chong Man Nang	Chief technology officer	8,331,616	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	1.07%
Mak Yau Kee, Adrian	Chief financial officer	2,221,764	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.28%
Mak Lai Yu, Amelia	Chief administration officer/legal adviser	2,221,764	the later of (i) 3 years from her employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.28%
Benjamin Ng	General manager of GDC Technology Pte. Limited	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Consultant of the Company				
David Kirschner	Executive producer of <i>Thru the</i> <i>Moebius Strip</i> and a consultant of the Company	1,388,603	1 year from the Listing Date to 19th March, 2013	0.18%

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Employee of the Group				
Ujval Lodha	Senior research and development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Parimal Aswani	Senior research and development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Ong Kiem Ching	Senior development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Thanakorn Kitticharernkul	Research and development engineer	555,441	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.07%
Pranay Kumar	Research and development engineer	555,441	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.07%
Total		61,015,197	=	7.82%

*Note:* These figures are calculated on the basis of 780,000,000 Shares in issue immediately after the New Issue and Capitalization Issue and take no account of the issue of Shares pursuant to any options which may be granted under the Share Option Scheme or the Sotas Option.

Since adoption of the Scheme and immediately before the Latest Practicable Date, no Options granted under the Scheme were exercised. Exercise of any of these outstanding Options will not have a dilution/consolidation effect on the shareholdings of the Shareholders at the time of such exercise of Options as well as on the earnings per Share for the relevant financial year of the Group given that the Shares subject to the Options were existing Shares outstanding and held by Forward Strategic, as at the Latest Practicable Date.

5. Bright Oceans Corporation (HK) Limited is ultimately and beneficially owned as to 50% by David Deng Wei, as to 40% by Huang Yi and as to 10% by Zhang Dong Sheng. Huang Yi and Zhang Dong Sheng have no involvement in the management of the Company and save for their indirect interests in the Company, are independent third parties not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. David Deng Wei is a non-executive Director. Accordingly, Bright Oceans Corporation (HK) Limited, David Deng Wei, Huang Yi and Zhang Dong Sheng are Initial Management Shareholders.

In April 2001, Bright Oceans Corporation (HK) Limited entered into an agreement with GDC pursuant to which (i) Bright Oceans Corporation (HK) Limited agreed to subscribe for 400,000 new shares of GDC at a cash consideration of US\$2,000,000 (equivalent to HK\$15,600,000); and (ii) GDC agreed to grant an option to Bright Oceans Corporation (HK) Limited to acquire 200,000 shares of GDC at a price of US\$2.5 per share of GDC during the period of one year commencing from 25th November, 2001.

In August 2002, the board of directors of GDC decided that the number of shares of GDC taken up by Bright Oceans Corporation (HK) Limited and the number of shares of GDC subject to the option should be adjusted based on a valuation of GDC at US\$100 million. As such, the board of directors of GDC decided that 494,000 shares of GDC should have been issued to Bright Oceans Corporation (HK) Limited and the number of shares of GDC subject to the option should be increased to 247,000. The option was exercised in full in the same month. The additional 94,000 shares of GDC and the 247,000 shares of GDC subject to the option were all transferred from the treasury shares of GDC registered in the name of Forward Strategic on 2nd November, 2001. Therefore, the subscription price was US\$4.05 per share and the valuation of GDC was US\$100 million.

Pursuant to a reorganization of the Company effected in November and December 2002, Bright Oceans Corporation (HK) Limited has become a Shareholder. Details of the reorganization are set out in note 20 below.

6. Richard Yingneng Yin is appointed as a non-executive Director and is therefore an Initial Management Shareholder.

On 31st March, 2000, GDC effected a share swap with Richard Yingneng Yin pursuant to which GDC allotted and issued new shares of GDC to Richard Yingneng Yin in consideration of GDC's acquisition from Richard Yingneng Yin of certain equity interest in GDC E-Com Limited at a consideration of US\$300,000 (equivalent to HK\$2,340,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Richard Yingneng Yin has become a Shareholder. Details of the reorganization are set out in note 20 below.

7. Sotas Limited is an investment holding company and a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly-owned by Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. None of the discretionary objects of the family trust are Directors. Sotas Limited had a board representation (Mr. Chang Ka Ki George) in GDC between August 2000 and November 2002. Sotas Limited does not have any management function in the Group and has no intention to be involved in the management of the Group in the near future. Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited have agreed that they shall be subject to the same restriction on disposal of shares which is imposed by the GEM Listing Rules on Initial Management Shareholders.

Sotas Limited and GDC entered into a subscription agreement dated 2nd April, 2000 pursuant to which Sotas Limited agreed to subscribe for 3,000,000 new shares of GDC for a cash consideration of US\$5,000,000 (equivalent to HK\$39,000,000). The subscription was completed in August 2000.

On 19th November, 2002, Sotas Limited disposed of 1,000,000 shares in GDC for a cash consideration of US\$1,670,000 (equivalent to HK\$13,026,000) to Marketeer Management Limited.

Pursuant to a reorganization of the Company effected in November and December 2002, Sotas Limited has become a Shareholder. Details of the reorganization are set out in note 20 below.

Pursuant to a deed of novation dated 28th November, 2002, made between GDC Holdings Limited (a wholly-owned subsidiary of the Company), GDC and Sotas Limited, GDC transferred the loans together with outstanding interest which it owed to Sotas Limited in an aggregate amount of HK\$7,859,616 to GDC Holdings Limited by way of novation. As the deed further provided for GDC and GDC Holdings Limited to undertake to, prior to the Listing Date, issue to Sotas Limited and/or any of its designates, share options to subscribe for new Shares in replacement of certain options previously issued by GDC to Sotas Limited, the Company has on 5th June, 2003 granted to Sotas Limited the Sotas Option.

The Sotas Option entitles the holder thereof to purchase 504,870 Shares (representing 8,331,615 new Shares and 1.1% of total issued Shares immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option), with an option period of 36 months commencing from the Listing Date and is exercisable upon 10 days prior written notice.

The exercise of the Sotas Option is subject to the GEM Listing Committee granting listing of and permission to deal in the Shares which may fall to be issued upon the exercise of the Sotas Option.

The Shares issued under the Sotas Option are subject to a moratorium on transfer for 12 months from the Listing Date. Verrall Limited will also undertake to the Company and the Stock Exchange that, during the period of 12 months from the Listing Date, it will not change the discretionary objects of the trust upon which it currently holds the shares in Morningside CyberVentures Holdings Limited. Verrall Limited has further undertaken to the Company, the Stock Exchange, the Sponsor and the Lead Manager that it will not dispose of (or enter into any agreements to dispose of) any of its shares in Morningside CyberVentures Holdings Limited during the period of 12 months from the Listing Date. The undertakings given by Verrall Limited as trustee of the trust will be binding upon its successors as trustees of the trust. The cost per Share under the Sotas Option is approximately HK\$0.56 representing approximately 44% discount to the Issue Price.

8. Perfect Brilliant Limited is a company wholly and beneficially owned by William Ka Chung Lam. William Ka Chung Lam was a director of GDC between January 2000 and January 2002. Further, Perfect Brilliant Limited and William Ka Chung Lam do not have nor intend to have any management role in any member of the Group. As William Ka Chung Lam was a director of GDC, Perfect Brilliant Limited and William Ka Chung Lam are regarded as Initial Management Shareholders.

On 31st March, 2000, GDC effected two share swaps with William Ka Chung Lam pursuant to which GDC allotted and issued 1,800,000 new shares of GDC to William Ka Chung Lam in consideration of GDC's acquisitions from William Ka Chung Lam of certain equity interests in GDC Entertainment Limited and Forward Strategic at an aggregate consideration of US\$1,800,000 (equivalent to HK\$14,040,000).

On 21st August, 2002, William Ka Chung Lam transferred 1,300,000 shares in GDC to Perfect Brilliant Limited at nil consideration.

On 25th October, 2002, Perfect Brilliant Limited disposed of (i) 100,000 shares in GDC to SRI Group Limited for a cash consideration of HK\$833,330; and (ii) 150,000 shares in GDC to Kanwin Corporation for a cash consideration of HK\$1,250,000. On the same date, William Ka Chung Lam disposed of 500,000 shares in GDC to SRI Group Limited for a cash consideration of HK\$4,166,670.

Pursuant to a reorganization of the Company effected in November and December 2002, Perfect Brilliant Limited has become a Shareholder. Details of the reorganization are set out in note 20 below. Perfect Brilliant Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. William Ka Chung Lam became acquainted with the Group through his acquaintance with the family of Anthony Neoh and Raymond Neoh.

9. Cyber Prime Developments Limited is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway.

On 31st March, 2000, GDC effected a share swap with Kingsway Technology Investments Limited pursuant to which GDC allotted and issued new shares of GDC to Kingsway Technology Investments Limited in consideration of GDC's acquisition from Kingsway Technology Investments Limited for certain equity interest in GDC Entertainment Limited at a consideration of US\$1,500,000 (equivalent to HK\$11,700,000). Kingsway Technology Investments Limited is a wholly-owned subsidiary of Kingsway International Holdings Limited, the shares of which are listed on The Toronto Stock Exchange Inc.. Kingsway International Holdings Limited is the holding company of SW Kingsway.

On 21st August, 2002, Kingsway Technology Investments Limited transferred its then entire equity interest in GDC to Cyber Prime Developments Limited for a consideration of HK\$11,700.

Pursuant to a reorganization of the Company effected in November and December 2002, Cyber Prime Developments Limited has become a Shareholder. Details of the reorganization are set out in note 20 below.

Kingsway Capital, a wholly owned subsidiary of SW Kingsway, is one of the joint financial advisers to the Company in respect of the New Issue.

10. Financial Outreach Limited is an investment holding company and is wholly and beneficially owned by Daniel Gia Tien Lam, who is a private investor. Save that Daniel Gia Tien Lam is the younger brother of William Ka Chung Lam (who is the beneficial owner of Perfect Brilliant Limited), Daniel Gia Tien Lam is independent of, and not connected with, any of

the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules and his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties. Further, Daniel Gia Tien Lam does not have nor intend to have any management role in any member of the Group. Financial Outreach Limited has provided funding proof that its interest in GDC was settled by its own source of funding.

On 31st March, 2000, GDC effected five share swaps with Financial Outreach Limited pursuant to which GDC allotted and issued new shares of GDC to Financial Outreach Limited in consideration of GDC's acquisitions from Financial Outreach Limited of the entire equity interests in GDC Technology Limited and GDC China Limited and certain equity interests in GDC E-Com Limited, GDC Consultants Limited and GDC Vision Scape Limited for an aggregate consideration of US\$600,000 (equivalent to HK\$4,680,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Financial Outreach Limited has become a Shareholder. Details of the reorganization are set out in note 20 below. Financial Outreach Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Daniel Gia Tien Lam became acquainted with the Group through referral from his brother William Ka Chung Lam.

11. Save that Christopher Paul Neoh is the younger brother of Anthony Neoh and the elder brother of Raymond Neoh, Christopher Paul Neoh is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules and his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties. Further, Christopher Paul Neoh does not have nor intend to have any management role in any member of the Group. Christopher Paul Neoh has provided funding proof that his interest in GDC was settled by his personal source of funding.

On 31st March, 2000, GDC effected a share swap with Christopher Paul Neoh pursuant to which GDC allotted and issued new shares of GDC to Christopher Paul Neoh in consideration of GDC's acquisition from Christopher Paul Neoh of certain equity interest in Forward Strategic at a consideration of US\$375,000 (equivalent to HK\$2,925,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Christopher Paul Neoh has become a Shareholder. Details of the reorganization are set out in note 20 below. Christopher Paul Neoh invested in the Company because he was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry.

12. Ajitkumar Chandubhai Patel is a private investor and has provided a statutory declaration that (i) he is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) he is the sole beneficial owner of the Shares held indirectly by him. Ajitkumar Chandubhai Patel does not have nor intend to have any management role in any member of the Group. Ajitkumar Chandubhai Patel has provided funding proof that his interest in GDC was settled by his personal source of funding.

On 31st March, 2000, GDC effected a share swap with Ajitkumar Chandubhai Patel pursuant to which GDC allotted and issued new shares of GDC to Ajitkumar Chandubhai Patel in consideration of GDC's acquisition from Ajitkumar Chandubhai Patel of certain equity interest in Forward Strategic at a consideration of US\$375,000 (equivalent to HK\$2,925,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Ajitkumar Chandubhai Patel has become a Shareholder. Details of the reorganization are set out in note 20 below. Ajitkumar Chandubhai Patel invested in the Company because he was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Ajitkumar Chandubhai Patel became acquainted with the Group through his acquaintance with Christopher Paul Neoh.

13. Future United Investments Limited is an investment holding company and is wholly and beneficially owned by Yeh Chiang Sheng, who is a private investor and has provided a statutory declaration confirming that (i) he is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) he is the sole beneficial owner

of the Shares held indirectly by him. Further, Yeh Chiang Sheng does not have nor intend to have any management role in any member of the Group. Future United Investments Limited has provided funding proof that its interest in GDC was settled by its own source of funding.

In June 2001, Future United Investments Limited agreed to acquire 200,000 shares of GDC at a cash consideration of US\$1,000,000 (equivalent to HK\$7,800,000) and GDC agreed to grant an option to Future United Investments Limited to acquire 100,000 shares of GDC at a price of US\$2.5 per share of GDC. 200,000 shares of GDC were subsequently transferred from Forward Strategic to Future United Investments Limited on 24th July, 2001.

In August 2002, the board of directors of GDC decided that the number of shares of GDC taken up by Future United Investments Limited and the number of shares of GDC subject to the option should be adjusted based on a valuation of GDC at US\$100 million. As such, the board of directors of GDC decided that 247,000 shares of GDC should have been issued to Future United Investments Limited and the number of shares of GDC subject to the option should be increased to 123,500. The option was exercised in full in September 2002. The additional 47,000 shares of GDC and the 123,500 shares of GDC subject to the option were all transferred from the treasury shares of GDC registered in the name of Forward Strategic on 2nd November, 2001. Therefore, the subscription price was US\$4.05 per share and the valuation of GDC was US\$100 million.

Pursuant to a reorganization of the Company effected in November and December 2002, Future United Investments Limited has become a Shareholder. Details of the reorganization are set out in note 20 below. Future United Investments Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Yeh Chiang Sheng became acquainted with the Group through his acquaintance with Anthony Neoh.

14. SRI Group Limited is an investment holding company and a wholly-owned subsidiary of Heng Fung Capital Company Limited, which is wholly owned by Heng Fung Holdings Limited, the shares of which are listed on the Main Board. The principal business activities of Heng Fung Holdings Limited are credit card operations, securities trading and investments, treasury investment, retailing of fashion apparel and accessories, property investment and medical health care. Heng Fung Holdings Limited is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules and its investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties. Further, Heng Fung Holdings Limited does not have nor intend to have any management role in any member of the Group.

On 25th October, 2002, SRI Group Limited acquired 500,000 shares and 100,000 shares in GDC from William Ka Chung Lam and Perfect Brilliant Limited, a company wholly and beneficially owned by William Ka Chung Lam, respectively, for an aggregate cash consideration of HK\$5,000,000.

Pursuant to a reorganization of the Company effected in November and December 2002, SRI Group Limited has become a Shareholder. Details of the reorganization are set out in note 20 below. SRI Group Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Heng Fung Holdings Limited became acquainted with the Group through referral from William Ka Chung Lam.

15. Kanwin Corporation is an investment holding company and ultimately and beneficially owned by Victor Yang. Victor Yang is a private investor and has provided a statutory declaration confirming that (i) he is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholder of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) he is the sole beneficial owner of the Shares held indirectly by him. Further, Victor Yang does not have nor intend to have any management role in any member of the Group. Kanwin Corporation has provided funding proof that its interest in GDC was settled by its own source of funding.

On 25th October, 2002, Kanwin Corporation acquired 150,000 shares in GDC from Perfect Brilliant Limited for a cash consideration of HK\$1,250,000.

Pursuant to a reorganization of the Company effected in November and December 2002, Kanwin Corporation has become a Shareholder. Details of the reorganization are set out in note 20 below. Kanwin Corporation invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Victor Yang became acquainted with the Group through referral from William Ka Chung Lam.

16. Marketeer Management Limited is an investment holding company and ultimately and beneficially owned by Elizabeth Lee Ka Ying. Elizabeth Lee Ka Ying is a private investor and has provided a statutory declaration confirming that (i) she is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) her investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) she is the sole beneficial owner of the Shares held indirectly by her. Further, Elizabeth Lee Ka Ying does not have nor intend to have any management role in any member of the Group. Marketeer Management Limited has provided funding proof that its interest in GDC was settled by its own source of funding.

On 19th November, 2002, Marketeer Management Limited acquired 1,000,000 shares in GDC from Sotas Limited for a cash consideration of US\$1,670,000 (equivalent to HK\$13,026,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Marketeer Management Limited has become a Shareholder. Details of the reorganization are set out in note 20 below. Marketeer Management Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Elizabeth Lee Ka Ying became acquainted with the Group through referral from Sotas Limited.

17. Overseas Chinese Town is a wholly owned subsidiary of Overseas Chinese Town Holding Company (華僑城集團公司). Overseas Chinese Town Holding Company is wholly owned by State Assets Regulatory Commission of PRC\* (中國國有資產監督管理委員會). Therefore, Overseas Chinese Town is a State-owned enterprise. Overseas Chinese Town was founded on 11th November, 2002. The principal business of Overseas Chinese Town is investment management and its principal business activities include businesses involved in paper packaging, household electronic appliances, hotel and tourism. Overseas Chinese Town is an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. Overseas Chinese Town invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry and for strategic reasons. Overseas Chinese Town Holding Company was established on 11th November, 1995.

Overseas Chinese Town, the Company and Upflow Holdings Limited (as guarantor) entered into a share subscription agreement dated 10th June, 2003, pursuant to which Overseas Chinese Town agreed to subscribe for 2,302,681 Shares which shall immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option represent 38,000,000 Share which is at least 4.87% of the total issued Shares at the aggregate subscription price of HK\$28,500,000. Overseas Chinese Town's aforesaid investment in the Company represents approximately 6.2% of its audited net asset value of HK\$462 million as at 31st December, 2002 and represents approximately 0.3% of the net asset value of Overseas Chinese Town Holding Company of approximately RMB10,000 million (approximately HK\$9,434 million). The subscription was completed on 26th June, 2003. Under the relevant share subscription agreement, if the Company fails to have the Shares listed on GEM by 30th November, 2003, Overseas Chinese will be entitled to exercise a buyback option pursuant to which the Company will be obliged to repurchase the said 2,302,681 new Shares subscribed by Overseas Chinese Town at HK\$28,500,000 (plus interest based on London Interbank Offer Rate over the relevant period).

18. CITIC International Assets Management Limited is a wholly owned subsidiary of CITIC International Financial Holdings Limited. The shares of CITIC International Financial Holdings Limited are listed on the Main Board. CITIC International Financial Holdings Limited (formerly known as CITIC Ka Wah Bank Limited) was established on 17th December, 1924. The principal business activities of CITIC International Assets Management Limited are investment holding and assets management and its portfolio comprises non-performing loans, performing liquid assets and other assets. The principal business of CITIC International Financial Holdings Limited include the provision of general banking and related financial services. CITIC International Financial Holdings Limited and CITIC International Assets Management Limited are independent third parties not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. CITIC International Assets Management Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry.

CITIC International Assets Management Limited and the Company entered into a share subscription agreement dated 12th June, 2003, pursuant to which CITIC International Assets Management Limited agreed to subscribe for 945,311 Shares which shall immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option represent 15,600,000 Shares which is at least 2.00% of the total issued Shares at the aggregate subscription price of HK\$11,700,000. The subscription was completed on 25th June, 2003. CITIC International Assets Management Limited currently manages a portfolio worth approximately HK\$1.2 billion and its investment in the Company represents approximately 1.0% of the portfolio it manages. Further, such investment represents approximately 0.17% of the net asset value of CITIC International Financial Holdings Limited as at 31st December, 2002 of approximately HK\$7,426 million.

- 19. Save for Overseas Chinese Town and CITIC International Assets Management Limited, these dates represent the existing Shareholders' respective date of first entry as shareholders of GDC. Pursuant to a reorganization effected in November and December 2002 by the Company detailed in note 20 below, all the then shareholders of GDC become the Shareholders. As for Overseas Chinese Town and CITIC International Assets Management Limited, these dates represent their respective date of first entry as Shareholders.
- 20. In preparation for the New Issue, the Company has effected a reorganization pursuant to which, among other things, GDC Entertainment Limited, GDC China Limited and GDC Technology Limited have become wholly-owned subsidiaries of the Company and the then existing shareholders of GDC have become the Shareholders. The reorganization hinged on 2 different share swap arrangements, a capital reduction, a distribution in specie and another share swap arrangement, details of which are set out below:

#### Share Swap 1

On 28th November, 2002, GDC sold all its shares and inter-company debts in GDC Technology Limited, GDC Entertainment Limited and GDC China Limited to GDC Holdings Limited (a company incorporated in the BVI by GDC) ("Share Swap 1"). The consideration for the Share Swap 1 consisted of (i) GDC Holdings Limited's allotment and issuance of 521,418,075 of its shares of US\$0.01 each to GDC and (ii) GDC Holdings Limited's assumption of certain loans and a convertible loan which were owed by GDC to several lenders, by way of novation.

#### Share Swap 2

On 28th November, 2002, GDC sold its entire 100% shareholding in GDC Holdings Limited to GDC (BVI) Limited (another company incorporated in the BVI by GDC) ("Share Swap 2") in consideration of GDC (BVI) Limited's allotment and issuance of 521,418,075 of its shares of US\$0.01 each to GDC.

#### Capital reduction

On 28th November, 2002, to facilitate the distribution in specie by GDC of its entire shareholding in GDC (BVI) Limited described below, GDC reduced its share capital from US\$24,700,000 divided into 24,700,000 shares of US\$1.00 each to US\$100,000 divided into 100,000 shares of US\$1.00 each, by reducing and canceling its paid-up capital.

#### Distribution in specie

On 28th November, 2002, GDC distributed to its existing shareholders, its entire shareholding in GDC (BVI) Limited by way of distribution in specie pro rata. Immediately after the said distribution in specie, the shareholding of GDC (BVI) Limited was as follows:

Name of shareholders	Number of distributed shares	Approximate percentage of shareholding
Upflow Holdings Limited	162,758,436	31.21%
Anthony Neoh	94,995,196	18.22%
Chong Man Nang	6,333,013	1.21%
Forward Strategic	66,042,771	12.67%
Bright Oceans Corporation (HK) Limited	15,642,542	3.00%
Cyber Prime Developments Limited	31,665,065	6.07%
Sotas Limited	42,220,087	8.10%
Perfect Brilliant Limited	22,165,546	4.25%
Christopher Paul Neoh	7,916,266	1.52%
Richard Yingneng Yin	6,333,013	1.21%
Financial Outreach Limited	12,666,026	2.43%
Ajitkumar Chandubhai Patel	7,916,266	1.52%
Future United Investments Limited	7,821,271	1.50%
SRI Group Limited	12,666,026	2.43%
Kanwin Corporation	3,166,507	0.61%
Marketeer Management Limited	21,110,044	4.05%
Total	521,418,076*	100.00%

this figure encompasses rounding up discrepancies of 1 Share.

#### Share Swap 3

After GDC (BVI) Limited repurchased 19,664,005 shares of GDC (BVI) Limited from Forward Strategic at par for a consideration of US\$196,640.05 for subsequent cancellation on 31st December, 2002, the existing shareholders of GDC (BVI) Limited (as set out above), on 31st December, 2002, sold their entire 100% shareholding in GDC (BVI) Limited to the Company ("Share Swap 3") in return for the Company's allotment and issuance of an aggregate of 30,000,000 Shares and to credit as fully paid at par the 10,000,000 Shares issued nil-paid to Upflow Holdings Limited on 7th November, 2002 (as per the following manner according to their then shareholding interests in GDC (BVI) Limited):

	Number of	Approximate
	consideration	percentage of
Name of allottee	Shares	shareholding
Upflow Holdings Limited (Note)	12,975,156	32.44%
Anthony Neoh	7,573,048	18.94%
Chong Man Nang	504,870	1.26%
Forward Strategic	3,697,330	9.24%
Bright Oceans Corporation (HK) Limited	1,247,028	3.12%
Cyber Prime Developments Limited	2,524,350	6.31%
Sotas Limited	3,365,800	8.41%
Perfect Brilliant Limited	1,767,044	4.42%
Christopher Paul Neoh	631,088	1.58%
Richard Yingneng Yin	504,870	1.26%
Financial Outreach Limited	1,009,740	2.52%
Ajitkumar Chandubhai Patel	631,088	1.58%
Future United Investments Limited	623,514	1.56%
SRI Group Limited	1,009,740	2.52%
Kanwin Corporation	252,434	0.63%
Marketeer Management Limited	1,682,900	4.21%
	40,000,000	100.00%

*Note*: The 12,975,156 Shares held by Upflow Holdings Limited already included the 10,000,000 Shares issued nil paid to it on 7th November, 2002.

After implementation of the above reorganization steps, all the then shareholders of GDC became Shareholders and the ultimate beneficial interest of each of the Shareholders in the Group before and after the completion of the above reorganization steps were the same.

21. Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement (where applicable), he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Initial Management Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if he/it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), he/it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when he/it receives indications, either oral or written, from the pledgee or chargee that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by him or it will

be or has been disposed of, he/it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

22. Each of the Significant Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by it or its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Significant Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when it receives indications, either oral or written, from the pledgee or chargee that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by it will be or has been disposed of, it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that it will place its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

23. Each of the Initial Management Shareholders and the Directors has confirmed that he/it has not entered into, and will not enter into, prior to the listing of Shares on GEM, any arrangements or agreements (other than those disclosed in this prospectus) in relation to the listing application of the Company on GEM, the Shares alloted and issued to the Shareholders or to be placed pursuant to the Placing, as well as the prices of the Shares.

Each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

In addition to the undertakings given by the Initial Management Shareholders and Significant Shareholders, each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited has undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

Each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited further confirm to the Company, the Sponsor, the Lead Manager and the Stock Exchange that, save as disclosed in this prospectus, he/it does not have any arrangement, agreement or transaction with the Company or any of its directors or the Initial Management Shareholders or any of their respective associates (as defined in the GEM Listing Rules).

### **RISK FACTORS**

The Directors consider that there are certain risks involved in investing in the Company. They can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to regulations, economics and politics; and (iv) risks relating to the New Issue, and they are summarized below. Further details of these risk factors are set out under the section headed "Risk factors" of this prospectus.

### (i) Risks relating to the Group

- Uncertainty of public acceptance of the Group's CG creation and production
- Future prospect of the Group is dependent on *Thru the Moebius Strip*
- Change in activity mix of the Group in the future
- Failure to complete self-financed and co-financed projects within budget
- Unproven concept of digital cinema
- Limited operating history and history of operating loss
- Limited free float of Shares in the market within one year from the Listing Date
- Reliance on financial assistance provided by certain Shareholders and their related parties
- Potential competition with Forward Strategic and DCDC
- Failure to protect the Group's intellectual property rights and proprietary rights
- Risk of infringement claims by third parties
- Reliance on the ticketing system of customers
- Risks associated with expansion into overseas markets
- Legal and other regulations
- Risks associated with inability to obtain third party technology licenses
- Inability to successfully expand through acquisitions or alliances
- Failure of industry partners to provide adequate support
- Failure to successfully implement the Group's business plans and strategies and adequate system of controls to manage future growth
- Failure in future fund raising
- Enhancement of operational, financial and management information system
- Reliance on key executives and personnel

- Reliance on high technology and computer systems for timely and successful development of feature films and other CG products
- Reliance on technological advancement to be successful
- Policy of re-deploying retained profits in financing capital commitments

### (ii) Risks relating to the industry

- Competition in the CG market
- Earnings in the entertainment industry are highly volatile

### (iii) Risks relating to regulations, economics and politics

- Economic and legal risks associated with conducting business in the PRC
- Difficulties in expanding the Group's business in other regions due to regulatory, political and economic uncertainties
- Volatility of worldwide economic climate
- Currency exchange rate

### (iv) Risks relating to the New Issue

- Potential dilution effect of the Sotas Option
- Dilution of Shareholders' interest as a result of additional equity fund raising

### **RESPECTIVE ROLES, RESPONSIBILITIES AND SCOPE OF WORKDONE PERFORMED BY THE SPONSOR, KINGSWAY CAPITAL AND CM-CCS**

As the sponsor, Asia Investment Capital is responsible for, amongst other things,

- (a) advising on an appropriate corporate structure to be adopted by the Group from the point of view of the New Issue in conjunction with other professional advisers;
- (b) advising on the timetable, pricing and marketing arrangement in respect of the New Issue;
- (c) assisting the Company to prepare and draft the prospectus and all other documentation, and coordinate the work of the professional advisers involved in the listing exercise in conjunction with other professional advisers;
- (d) assisting the board of directors of the Company to determine the price, timing and terms on which, subject to market conditions, the New Issue is to be made to the public;
- (e) liaising with, and collating information from, the Stock Exchange and the SFC for matters relating to the New Issue;
- (f) advising on the requirements of the GEM Listing Rules in conjunction with other professional advisers;

- (g) co-ordinating the work of the professional firms involved in producing the related documentation in respect of the New Issue; and
- (h) assisting to form a syndicate of underwriters to underwrite the New Issue if the Sponsor considers appropriate.

As the financial adviser to the Company in relation the New Issue, CM-CCS is responsible for arranging of all matters related to pre-listing investment of the Group, assisting securities analysts to properly understand the Company, and reviewing and commenting on relevant documents relating to the New Issue, and advising the Company with regard to all matters incidental to the foregoing for a fee. Under the engagement letter between Kingsway Capital and the Company, the terms of responsibility of Kingsway Capital as financial adviser to the Company are the review and provision of comment on the prospectus and other documents relating to the listing of the Shares on GEM. The Sponsor has the absolute discretion to adopt and finalize the relevant documentation, particularly this prospectus and the Application Forms, in respect of the New Issue.

#### RELATIONSHIP BETWEEN THE GROUP AND SW KINGSWAY AND ITS ASSOCIATES

#### Shareholding in the Company

Immediately after completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option, SW Kingsway, through Cyber Prime Developments Limited, will be interested in 41,658,077 Shares, representing approximately 5.4% of the issued share capital of the Company. Further, SW Kingsway is a Significant Shareholder.

#### Loans to the Group

Pursuant to a deed of novation dated 27th November, 2002 made between GDC Holdings Limited, GDC and Kingsway Finance, GDC agreed to transfer the loan together with outstanding interests which it owed to Kingsway Finance, in the amount of approximately HK\$1,723,162 (which consists of principal of HK\$1,700,000 and interest of HK\$23,162) to GDC Holdings Limited, by way of novation. This loan was due on 14th May, 2003 and the Group had negotiated with Kingsway Finance to extend this loan under the same terms as the relevant loan agreement. The said loan together with accrued interest is scheduled to be repaid before the Listing Date.

On 28th March, 2003, GDC Holdings Limited obtained a term loan of HK\$2,000,000 from Kingsway Finance via a loan facility letter. The term loan bears interest at the best lending rate as quoted by the Standard Chartered Bank, Hong Kong from time to time plus 3% per annum and is repayable on or before 25th June, 2003 or on or before the date on which the Shares are listed on GEM, whichever is earlier. Each of Upflow Holdings Limited and Anthony Neoh has pledged its/his entire shareholding in the Company in favour of Kingsway Finance as securities for the term loan. No security has been given by any member of the Group to Kingsway Finance for the grant of the term loan. The said loan principal of HK\$2,000,000 together with accrued interest of HK\$39,722 was repaid on 26th June, 2003.

The Directors confirm that the above credit facility and loans provided by Kingsway Finance to the Group in the aggregate amount of HK\$3,700,000 were applied towards the CG production of *Thru the Moebius Strip* and as working capital of the Group.

As at 31st May, 2003, the loans due from the Group to Kingsway Finance amounted to HK\$3,700,000. SW Kingsway has confirmed that the above loans were not funded directly or indirectly by any connected persons of the Company or an associate of any of them, other than themselves. The Directors confirm that the Group will not require further financial assistance from SW Kingsway and its associates.

#### Financial advisory services to the Group

Kingsway Capital, a wholly-owned subsidiary of SW Kingsway, has been engaged by the Company to act as a financial advisor of the Company's listing on GEM and its job responsibilities shall be the review and provision of comments on the prospectus and other documentation relevant to the said listing. In addition, Kingsway Capital had previously provided services to the Group as a co-sponsor of the listing of the Shares on GEM, the engagement of the services of which was terminated on 31st March, 2003.

#### Provider of mandatory provident fund ("MPF")

In December 2000, GDC entered into an agreement with Kingsway Fund Management Limited (formerly known as Polaris Asset Management Limited), a wholly-owned subsidiary of SW Kingsway, pursuant to which Kingsway Fund Management Limited agreed to become a MPF provider for GDC. On 13th June, 2003, the Company entered into an agreement with Kingsway Fund Management Limited (as supplemented by an agreement dated 24th June, 2003) pursuant to which the Company has agreed to appoint Kingsway Fund Management Limited as its MFP provider. For the provision of services by Kingsway Fund Management Limited as the sponsor of the MPF, Kingsway Fund Management Limited receives an annual management fee at the rate ranging from 0.4% to 0.9% on the net asset value of the funds managed. The Directors (including the independent non-executive Directors) confirm that the rate charged for the aforesaid annual management fee were similar to those offered by other MPF providers.

#### Sub-tenancy agreement

On 12th August, 2002, GDC Technology Pte Ltd., a wholly owned subsidiary of the Company, entered into a sub-tenancy agreement ("1st sub-tenancy") with Solutions Lab Pte Ltd., which is a fellow subsidiary of SW Kingsway engaged in the development and distribution of software. As lessor, Solutions Lab Pte Ltd. leased to GDC Technology Pte Ltd. for use by the Group as an office, premises located at 70B, 3rd Floor, Amoy Street, Singapore 069889, Singapore, at a monthly rent of S\$1,000 for a term of 1 year commencing from 1st September, 2002. However, the 1st sub-tenancy was supplemented by a supplemental sub-tenancy agreement on 12th May, 2003, whereas the subleased premises was extended to 70A on 2nd Floor and 70B on 3rd Floor, Amoy Street, Singapore 069889, Singapore (except a server room at 70A on 2nd Floor), with the monthly rental increased to S\$4,800 (equivalent to approximately HK\$20,620), whilst the term of the sub-tenancy remains unchanged.

#### **Consultancy service agreement**

On 1st January 2003, GDC Technology Limited, a wholly owned subsidiary of the Company, entered into a consultancy service agreement with Financial Infrastructure Technology Limited, which is a fellow subsidiary of SW Kingsway, engaging in technology and integrated service. Pursuant to the consultancy service agreement, GDC Technology Limited agreed to retain certain consultancy services of Financial Infrastructure Technology Limited. In providing such services, Financial Infrastructure Technology Limited will (i) review current and future business goals to determine optimal architecture, evaluate current policies and procedures to meet operational requirements, evaluate capacities of the customer's technical staff and recommend improvements; (ii) develop a comprehensive yet flexible design that meets the customer's present and future needs for capacity and performance; and (iii) integrate, configure, install and test hardware/software products to ensure a state of production readiness and mentor the customer's staff

implementation. The agreement shall continue in full force and effect for a fixed period of 12 months from the effective date unless earlier terminated in accordance with the provisions of the consultancy service agreement and the total fee payable by GDC Technology Limited under the agreement is HK\$380,000.

#### Secretarial and accounting services

In 2000 and 2001, a wholly-owned subsidiary of SW Kingsway provided certain secretarial services to the Group for an aggregate consideration of approximately HK\$26,040. Further, during the same period, certain staff of SW Kingsway and its associates assisted the Group in keeping its accounts for no charges.

Save as disclosed above and otherwise stated in this prospectus, Kingsway Capital and its associates have not provided any other services to the Group.

#### **ON-LENDING LOANS FROM KINGSWAY FINANCE TO THE GROUP**

On 17th October, 2001, GDC entered into an agreement with E-Talent, (which is owned by Ms. Po Mei Ching), pursuant to which E-Talent advanced various loans to GDC totaling HK\$5,800,000 ("E-Talent Facility"). Each of E-Talent and Ms. Po Mei Ching is an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules, and is not connected with and is independent from Kingsway Finance. Interest shall accrue on a day to day basis on the outstanding principal amount of the E-Talent Facility at the best lending rate as quoted by the Standard Chartered Bank, Hong Kong from time to time plus 3% per annum. The E-Talent Facility is unsecured and was due on 17th June, 2003.

On 16th October, 2001, E-Talent entered into an agreement with Kingsway Finance pursuant to which Kingsway Finance agreed to make available to E-Talent a credit facility of HK\$5,800,000 (the "Kingsway Finance Facility"), which was used by E-Talent for on-lending to GDC as working capital under the E-Talent Facility. Each of Anthony Neoh, Raymond Neoh and Ms. Po Mei Ching has individually and separately given an irrevocable and unconditional personal guarantee in favour of Kingsway Finance for the repayment of the Kingsway Finance Facility, which shall continue to be effective until final payment has been made. The Directors confirm that the relevant on-lending arrangement was made as a result of a mutual commercial decision made amongst Kingsway Finance, E-Talent, the Group and the personal guarantors concerned, taking into particular account the internal lending policies of Kingsway Finance (and especially the credit exposure limit and the requirement on the number of persons providing guarantees under such on-lending arrangement). In order to fulfill the requirements of Kingsway Finance as a lender, Ms. Po Mei Ching (who wholly-owns E-Talent and is a personal friend of Anthony Neoh) was introduced by Anthony Neoh to assist the on-lending arrangement and to act as the personal guarantor for the loan from Kingsway Finance to E-Talent.

Pursuant to a deed of novation dated 28th November, 2002 entered into between GDC, GDC Holdings Limited and E-Talent, GDC agreed to transfer the E-Talent Facility together with outstanding interests accrued which it owed to E-Talent, in an aggregate amount of approximately HK\$5,880,048 to GDC Holdings Limited, by way of novation. As at 31st May, 2003, the principal amount of loan due from the Group to E-Talent amounted to HK\$5,800,000. The E-Talent Facility was due on 17th June, 2003 and the Group had negotiated with E-Talent to extend the E-Talent Facility under the original terms. The E-Talent Facility together with accrued interest was repaid on the Latest Practicable Date.

The Directors confirm that the above loans were applied towards the CG production of *Thru the Moebius Strip* and as working capital of the Group.

# LOAN FROM WILLIAM KA CHUNG LAM TO THE GROUP AND HIS SHAREHOLDING AND DIRECTORSHIP IN THE COMPANY

Pursuant to a deed of novation dated 27th November, 2002 entered into between GDC Holdings Limited, GDC and William Ka Chung Lam, GDC agreed to transfer the loan together with outstanding interests which it owed to William Ka Chung Lam, in an aggregate amount of approximately HK\$1,035,234 to GDC Holdings Limited, by way of novation. As at 31st May, 2003, the principal amount of loan due from the Group to William Ka Chung Lam amounted to HK\$1,000,000. The said loan was due on 30th July, 2002 and the Group had negotiated with William Ka Chung Lam to extend the said loan under the original terms. The said loan together with accrued interest was repaid on the Latest Practicable Date.

The Directors confirm that the above loans were applied towards the CG production of *Thru the Moebius Strip* and as working capital of the Group.

Immediately after completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option, William Ka Chung Lam, through his interest in Perfect Brilliant Limited, will be interested in 29,160,654 Shares, representing approximately 3.8% of the issued share capital of the Company. William Ka Chung Lam has never had any directorship in the Company. William Ka Chung Lam was a director of GDC between January 2000 and January 2002.

# DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"Adlabs"	Adlabs Films Limited, a company established in Mumbai, India, engaged in cinematographic film processing and operations of cinemas in India, whose shares are listed on the Bombay Stock Exchange and the National Stock Exchange of India and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Anthony Neoh"	Anthony Francis Neoh, the chairman of the Board, a non-executive Director and an Initial Management Shareholder
"Application Form(s)"	<b>WHITE</b> Application Form(s) and <b>YELLOW</b> Application Form(s), or where the context so requires, any of them
"Asia Investment Capital" or "Sponsor"	Asia Investment Capital Limited, a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO, an approved sponsor for listing on GEM and the Sponsor to the New Issue
"Asia Pacific"	Greater China, Malaysia, Singapore, India and Australia
"associate"	the meaning ascribed thereto under the GEM Listing Rules
"BDC"	Boeing Digital Cinema, a service offering by The Boeing Company which is a leading satellite manufacturer and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Board"	board of Directors
"business day"	any day on which the Stock Exchange is open for the business of dealing in securities
"BVI"	British Virgin Islands
"Capitalization Issue"	the issue of Shares to be made upon capitalization of part of the share premium account of the Company referred to in the paragraph headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC

"CFG"	China Films Group* (中國電影集團公司), a large cinema operator film production and distribution group in the PRC with rights to import and export films and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"chief executive"	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
"CICG"	China Investment Credit Guarantee Limited* (中投信用擔保有限公司), a company established in the PRC engaging in the provision of financial services and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"CM-CCS" or "Lead Manager"	CM-CCS Securities Limited, a deemed licensed corporation for types 1, 4, 6, 7 and 9 regulated activities under the SFO and one of the joint financial advisers, lead manager and bookrunner of the New Issue
"Companies Act"	the Companies Act 1981 of Bermuda
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Global Digital Creations Holdings Limited, a company incorporated in Bermuda on 9th October, 2002 as an exempted company with limited liability
	naonity
"Convertible Note"	a convertible note in the principal amount of HK\$7,800,000 provided by the Group to Middle Asia Limited pursuant to the deed of novation as set out in the paragraph headed "Summary of material contracts" in appendix V to this prospectus which was subsequently repaid in March 2003. Further details of the Convertible Note are set out in the sub-section headed "Information on the Convertible Note" in the section headed "Business" in this prospectus
"Convertible Note" "DCDC"	a convertible note in the principal amount of HK\$7,800,000 provided by the Group to Middle Asia Limited pursuant to the deed of novation as set out in the paragraph headed "Summary of material contracts" in appendix V to this prospectus which was subsequently repaid in March 2003. Further details of the Convertible Note are set out in the sub-section headed "Information on
	a convertible note in the principal amount of HK\$7,800,000 provided by the Group to Middle Asia Limited pursuant to the deed of novation as set out in the paragraph headed "Summary of material contracts" in appendix V to this prospectus which was subsequently repaid in March 2003. Further details of the Convertible Note are set out in the sub-section headed "Information on the Convertible Note" in the section headed "Business" in this prospectus Digital Content Development Corporation Limited, a company incorporated in Hong Kong with limited liability which is principally engaged in CG production in Hong Kong, further details of which are set out under the sub-section headed "Competing interest" in the section headed "Business" in

"E-Talent"	E-Talent Investments Limited, an investment holding company incorporated in the BVI and wholly owned by Ms. Po Mei Ching, and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Equinoxe"	Equinoxe Digital Entertainment, an enterprise established under the laws of California, the US which is principally engaged in game development in the US, and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Forward Strategic"	Forward Strategic Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of GDC
"GDC"	Global Digital Creations Limited (formerly known as Global Digital Creations Holdings Limited), an investment holding company incorporated in the BVI with limited liability and the former holding company of the existing subsidiaries of the Company prior to completion of the Reorganization. For further details of GDC, please refer to the sub-section headed "Competing interest" in the section headed "Business" in this prospectus
"GDC Consultants Limited"	GDC Consultants Limited, a company incorporated in the BVI with limited liability which is dormant and a wholly owned subsidiary of GDC
"GDC E-Com Limited"	GDC E-Com Limited (環球數碼電子商資香港有限公司), a company incorporated in Hong Kong with limited liability which is dormant and a wholly owned subsidiary of GDC
"GDC Group"	GDC and its subsidiaries
"GDC Vision Scape Limited"	GDC Vision Scape Limited, a company incorporated in the BVI with limited liability which is dormant and a subsidiary of GDC
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM made by the Stock Exchange from time to time
"GEM web-site"	the Internet website operated by the Stock Exchange for GEM at www.hkgem.com

"Grand Theatre"	the Grand Theatre* (上海大光明電影院), a cinema located in Shanghai, the PRC and an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Greater China"	the PRC, Hong Kong and Taiwan
"Group"	the Company together with its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the Company's present subsidiaries or the business operated by such subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IDMT"	IDMT (Shenzhen) Limited* (環球數碼媒體科技研究(深圳)有限公司), a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company, which is engaged in the provision of CG training courses and the development of multimedia software and hardware and the provision of related technical consultancy services
"Initial Management Shareholders"	the meaning ascribed thereto under the GEM Listing Rules and in respect of the Company means Upflow Holdings Limited, Raymond Neoh, Anthony Neoh, Chong Man Nang, Bright Oceans Corporation (HK) Limited, David Deng Wei, Huang Yi, Zhang Dong Sheng, Richard Yingneng Yin, Forward Strategic, Sotas Limited, Morningside CyberVentures Holdings Limited, Verrall Limited, Perfect Brilliant Limited and William Ka Chung Lam
"Issue Price"	the issue price of HK\$1.00 per New Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) at which the Shares are to be subscribed and issued pursuant to the New Issue and which is to be determined as described in the section headed "Structure and conditions of the New Issue" of this prospectus
"Kingsway Capital"	Kingsway Capital Limited, a deemed licensed corporation for types 4, 6 and 9 regulated activities under the SFO and one of the joint financial advisers of the New Issue
"Kingsway Finance"	Kingsway SW Finance Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SW Kingsway
"Latest Practicable Date"	21st July, 2003 being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus
"Listing Date"	the date on which dealings in the Shares first commence on GEM

"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continue to be operated by the Stock Exchange in parallel with GEM; for the avoidance of doubt, the Main Board excludes GEM
"Middle Asia Subscription Agreement"	a subscription agreement dated 1st August, 2002 entered into between GDC and Middle Asia Limited under which GDC agreed to issue and Middle Asia Limited agreed to subscribe for a HK\$7,800,000 1.5% convertible note due 2003
"Moebius Strip Limited"	Moebius Strip Limited (formerly known as Butterfly Dance Holdings Limited), a company incorporated in the BVI which is owned as to one-third by Jean Moebius Giraud (the conceptual artist of <i>Thru the Moebius Strip</i> ), and as to the remaining two-third by Arnold Gene Wong (one of the co-executive producers of <i>Thru the Moebius Strip</i> )
"New Issue"	the issue of New Shares by way of an offer for subscription at the Issue Price under the Public Offer and the Placing, on and subject to the terms and conditions stated in this prospectus and the Application Forms
"New Shares"	66,300,000 new Shares (representing 8.5% of the issued share capital of the Company immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option) initially being offered for subscription in Hong Kong pursuant to the New Issue (subject to adjustment as described in the section headed "Structure and conditions of the New Issue" in this prospectus)
"Overseas Chinese Town"	Overseas Chinese Town (Hong Kong) Co., Ltd, a wholly owned subsidiary of Overseas Chinese Town Holding Company* (華僑城集團公司) and an investment management company which principal businesses include paper packaging, household electronic appliances, hotel and tourism. Overseas Chinese Town (Hong Kong) Co., Ltd is an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. Overseas Chinese Town Holding Company is wholly owned by State Assets Regulatory Commission of PRC* (中國國有資產監督管理委員會)
"Placing"	the conditional placing of the Placing Shares at the Issue Price on and subject to the terms and conditions described in this prospectus
"Placing Shares"	58,300,000 new Shares (representing approximately 7.5% of the issued share capital of the Company immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option) being offered for subscription under the Placing (subject to reallocation as described in the section headed "Structure and conditions of the New Issue" in this prospectus)
"PRC" or "China mainland"	the People's Republic of China which, for the purposes of this prospectus, excludes Hong Kong, Macau Special Administrative Region and Taiwan

\* For identification purposes only

"Pre-Listing Investors"	Overseas Chinese Town and CITIC International Assets Management
	Limited (a wholly owned subsidiary of CITIC International Financial
	Holdings Limited, the shares of which are listed on Main Board) which are
	both independent third parties not connected with any of the directors, chief
	executive, substantial shareholders or initial management shareholders of the
	Company or an associate of any of them for the purpose of the GEM Listing
	Rules

- "Public Offer" the offer for subscription of the Public Offer Shares to the public in Hong Kong at the Issue Price on and subject to the terms and conditions set out in this prospectus and the Application Forms
- "Public Offer Shares" the 8,000,000 new Shares (representing approximately 1.0% of the issued share capital of the Company immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option) initially being offered by the Company for subscription under the Public Offer (subject to reallocation as described in the section headed "Structure and conditions of the New Issue" in this prospectus)
- "Raymond Neoh" Raymond Dennis Neoh, the founder of the Group, an executive Director and an IMS
- "Reorganization" the reorganization of the group of companies comprising the Group in preparation for the listing of the Shares on GEM, details of which are set out in the section headed "Corporate reorganization" in appendix V to this prospectus
- "SFC" the Securities and Futures Commission of Hong Kong
- "SFO" the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
- "Shanghai Paradise" the Shanghai Paradise Warner Cinema City\* (上海永華電影城), a cinema complex located in Shanghai, the PRC, which is owned by a joint venture established by Warner Bros. Entertainment Inc, Shanghai Paradise Corporation and Broadband Investment Limited of Hong Kong
- "Shanghai Paradise Shanghai Paradise Corporation Limited\* (上海永樂股份有限公司), a stateowned film company in the PRC, and an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
- "Shanghai Xin Chang Ning Group Corporation Limited\*
   Ning"
   Shanghai Xin Chang Ning Group Corporation Limited\*
   (上海新長寧(集團)有限公司), a company wholly owned by the Shanghai Municipal District of Chang Ning which is engaged in real estate business and an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules

\* For identification purposes only

"Share(s)"	share(s) of HK\$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 18th July, 2003, the principal terms of which are summarized in the paragraph headed "Share Option Scheme" in appendix V to this prospectus
"Shenzhen University"	Shenzhen University (深圳大學), an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Significant Shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules and in respect of the Company means Cyber Prime Developments Limited, Billion On Development Limited, Festival Developments Limited, Kingsway China Holdings Limited and SW Kingsway
"Sotas Option"	a share option granted to Sotas Limited by the Company on 5th June, 2003 pursuant to a deed of novation dated 28th November, 2002 made between GDC Holdings Limited (a wholly-owned subsidiary of the Company), GDC and Sotas Limited, which entitles Sotas Limited to subscribe for 504,870 new Shares (representing 8,331,615 shares after completion of the New Issue and Capitalization Issue but before the exercise of the Sotas Option) from the Company within 36 months from the Listing Date at an aggregate exercise price of US\$600,000 (equivalent to HK\$4,680,000)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SW Kingsway"	SW Kingsway Capital Holdings Limited, the shares of which are listed on the Main Board and a Significant Shareholder
"Taiwan"	the Republic of China
"Thru the Moebius Strip"	the title of the movie which is the Group's current project on hand, further details of which are set out in the paragraph headed "Projects on hand" of the section headed "Business" of this prospectus
"TI"	Texas Instruments Corporation, Dallas, Texas, the US, one of the world's major suppliers in digital signal processing and analog technologies, the semiconductor engines of the Internet age, an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"Track Record Period"	the period comprising the two years ended 31st December, 2002 and the one month ended 31st January, 2003

"Underwriters"	CM-CCS, Quest Stockbrokers (HK) Limited, Tai Fook Securities Company Limited, CSC Securities (HK) Limited, Crosby Limited, Chun Yick Securities Limited, Quam Securities Company Limited, Asia Investment Capital Limited, First Asia Finance Group Limited, Sanfull Securities Limited, DL Brokerage Limited, Hong Tong Hai Securities Limited and Partners Capital International Limited
"Underwriting Agreement"	the underwriting agreement dated 23rd July, 2003 made between, among others, the Company and the Underwriters relating to the New Issue as described in the section headed "Underwriting" of this prospectus
"US"	the United States of America
"WAMC, Inc"	Westwood Audiovisual & Multimedia Consultants, Inc, a company incorporated in California which specializes in distributing a catalog of rights for entertainment and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"WHITE Application Form(s)"	application form(s) for application of New Shares to be issued in the applicant's/applicants' own name(s)
"WTO"	World Trade Organisation
"YELLOW Application Form(s)"	application form(s) for applicant(s) who want(s) the New Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to his/its/their investor participant stock account(s) or the stock account(s) of his/its/their designated CCASS participant(s) maintained in CCASS
"Zhanjiang Dong Hai"	Zhanjiang Dong Hai Long Teng Enterprise Company Limited* (湛江市東海 龍騰實業有限公司), a company established in the PRC engaging in enterprise businesses including, inter alia, trading home appliances, building materials and chemical raw materials and an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules
"HK\$" and "cents"	
TIK¢ and cents	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"RMB"	
	Kong
"RMB"	Kong Renminbi, the lawful currency of the PRC

\* For identification purposes only

Unless otherwise specified, for the purposes of this prospectus, amounts denominated in S\$, US\$ and RMB are converted into Hong Kong dollars as follows:

HK\$4.3 = S\$1.00 HK\$7.80 = US\$1.00 HK\$100 = RMB106

These exchange rates are for the purpose of illustration only and no representation is made that any amounts in S\$, US\$, RMB or HK\$ have been, could have been or may be exchanged, at these or any other rates.

The glossary contains explanations of certain terms and definitions used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

#### **Organisational Terms**

"SIGGRAPH"	Special Interest Group on Computer Graphics, an organisation dedicated to the generation and dissemination of information on CG and interactive techniques
"SMPTE"	Society of Motion Pictures and Television Engineers, based in the US
Technical Terms	
"10-bit"	a sampling rate of 2 to the power 10 (i.e. 1024 times) from the film material or real live events when that is transformed into digital data
"2D"	2 dimensional
"24fps"	24 frames per second; frames per second measures how many frames a film is recorded
"3D"	3 dimensional
"3ds max"	an animation modeling and rendering solution for film, television, games and design visualization developed by Discreet
"4:2:0", "4:2:2" Digital video	digital format of video signal can be sampled at either 4:2:0 or 4:2:2 sampling. The digital video signal has three components, they are the luminance (Y), a color value consisting of the luminance deducted from the color red (R-Y) and the color value of the luminance deducted from the color blue (B-Y). These three components, Y, R-Y and B-Y are also known as "YUV". During the digitizing process, the three parameters of the component video signal are assigned a numeric sampling value. Groups of four video pixels within each of the three components are looked at and samples are taken for recording. With a 4:2:2 sampled video signal, all four of the luminance pixels are sampled, two of the R-Y pixels are sampled and two B-Y pixels are sampled. This gives a 4:2:2 sampled signal and is sampled four times out of four, but only one pixel is sampled from each of the R-Y and B-Y. This lower sampling rate of the color components will result in less color information being recorded. The 4:2:0 is the sampling rate used with the consumer digital video format, along with digital video

equipment

camera and DVCPRO. The 4:2:2 sampling rate is used with professional

"AC-3"	AC-3 is an audio data compression technology capable of encoding a variety of audio channel formats into a single low-rate bitstream. The AC-3 bitstream specification permits sample rates of either 48 kHz, 44.1 kHz, or 32 kHz, and supports data rates ranging from 32 kbps (kilobits-per-second) to 640 kbps. AC-3 is developed by Dolby and has been adopted by the Advanced Television Systems Committee (ATSC) as the audio service standard for HDTV in the US and DVD
"AFM"	American Film Market, an annual marketplace for the global motion picture industry
"animation"	a simulation of movement created by displaying a series of pictures, or frames, of which cartoons on television is one example
"CG"	computer graphics
"compression"	the temporary coding of data in a way that saves storage space or transmission time
"cryptography"	the technology of encoding information so that it can only be read by authorized individuals
"D5"	a standard for magnetic tapes that are used to record and playback of HDTV images. D5 video tape recorder is made by Panasonic
"DC28"	a standard committee composed of members from SMPTE tasked with developing standards for digital cinema
"decoder"	hardware or software that translates a coded signal back to its original form. Decoders are used to enable a computer to recognize instructions and addresses
"decrypt" or "decryption"	to decode encrypted data so that it becomes readable
"demodulator"	a peripheral device that connects to a satellite to for demodulating analog signals back into digital signals to be read by the computer
"digital content"	information stored in binary form that a computer can understand. Text, graphics and sound are all stored as 1s and 0s in a computer
"DLP"	the digital-light-processor, which is part of the projection system developed by TI. It has been widely used in digital-cinema features. DLP now displays resolutions up to 1280 x 1024. It is also known as DMD for digital micro- mirror device
"DVD"	digital versatile disc or digital video disc
"encrypt" or "encryption"	putting data into a secret code so that it will become unreadable except by authorized users

"ETC"	the Entertainment Technology Center, located at the University of Southern California in Los Angeles, which operates the digital-cinema lab, a test facility for digital cinema technologies
"Firewire"	a serial bus developed by Apple Computer and Texas Instruments (IEEE 1394) which can connect up to 63 devices in a tree-like daisy chain configuration, and transmit data at up to 400 megabits per second. It supports plug and play and peer-to-peer communication between peripheral devices
"gigabyte"	a unit of computer memory or data storage capacity equivalent to $1024^3$ or $1,073,741,824$ bytes
"HDTV"	high-definition television, which refers to video images that have greater resolution than the legacy US NTSC (525 lines) and European PAL (625 lines) standards
"JPEG 2000"	Joint Pictures Expert Group digital video compression standard published in the year 2000
"LTC"	Longitudinal Time Code: SMPTE time code standard usually recorded onto the linear audio track of a VCR or audio tape machine
"MAYA"	a 3D animation and effects software developed by Alias Wavefront, a division of Silicon Graphics Limited
"MPEG2"	a standard for the generic coding of Moving Pictures and Associated Audio sponsored by ITU-T and ISO/IEC JTC1/SC29 WG11, commonly referred to as Motion Pictures Expert Group. MPEG-1 (ISO/IEC 11172) was the first MPEG standard defining the compression format for real-time audio and video. The video resolution is typically 352 x 240 or 352 x 288, although higher resolutions are supported. The maximum bitrate is about 1.5 Mbps. MPEG-1 is used for the VCD format. MPEG-2 (ISO/IEC 13818) extends the MPEG-1 standard to cover a wider range of applications. Higher video resolutions are supported to allow for HDTV applications, both progressive and interlaced video are supported. MPEG-2 is used for the DVD — Video and SVCD formats, and also forms the basis for digital SDTV and HDTV
"OEM"	original equipment manufacturing, under which products are manufactured in whole or in part in accordance with a customer's specifications and are marked under the customer's own brand name
"PCM"	Pulse-Code Modulation: This is the form of the digital audio signal used for both CD and laserdisc. PCM is uncompressed audio stream and it is a serial data stream that is coded for transmission or recording. PCM is also used for many other types of serial data communications
"pixel"	a single dot, which is one of the tiny squares that one can see if one looks very closely at one's monitor or television. These squares make up the pictures on the monitor or television and are the smallest units of colour that a monitor or a television can display

"rendering"	the drawing of a real-world object as it actually appears and often refers to the process of translating high-level database descriptions to bitmap images comprising a matrix of pixels or dots
"rendering farm"	parallel network of computers for fast data processing in the rendering process
"ROM"	read only memory
"Roncarelli Report 2001"	the Roncarelli Report on the Computer Animation Industry - 2001
"ShoWest"	an annual convention for the motion picture industry with delegates from more than 50 different countries in attendance each year
"SMPTE"	Society for Motion Picture and TV Engineers, based in White Plains, New York, a standards organization for TV production, which developed SMPTE time code for audio and video
"subtitles"	text that is added below or over a picture that usually reflects what is being said, possibly in another language. Open subtitles are transmitted as video that already has the subtitles present
"telecine"	an electronic device, also known as a film chain, designed to transfer a film image to a video image in real time
"texture"	2D bitmap pasted onto objects or polygons to add realism
"time code"	a digital code number recorded onto a video tape for editing purposes. When decoded, the time code identifies every frame of a videotape using digits read hours:minutes:seconds and frames. Each individual video frame is assigned a unique address, a must for accurate editing. The three time code systems used for professional video are VITC and LTC
"VCD"	video compact disc
"VITC"	Vertical Interval Time Code: A popular method for recording time code onto videotape. A time code address for each video frame is inserted in the vertical interval (the vertical blanking retrace period) of the video signal, where it is invisible on-screen yet easily retrieved, even when a helical scanning VCR is in pause mode. The most common form of VITC is SMPTE-VITC
"VTR"	video tape recording

Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, certain of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions.

#### **RISKS RELATING TO THE GROUP**

#### Uncertainty of public acceptance of the Group's CG creation and production

The Group is a relatively new player in the CG creation and production industry with three years' experience of establishment. During the Track Record Period, the Group did not generate any revenue from CG creation and production. As at the Latest Practicable Date, no revenue has yet been generated from CG creation and production. Although the Directors expect that the Group will start to generate revenue from this segment after the release of *Thru the Moebius Strip*, which is expected to be in the first quarter of 2004, public acceptance of the quality of the Group's CG creation and production will remain uncertain until the release of this film. The Directors also expect that a substantial amount of revenue will be generated from the merchandises and other associated products derived from Thru the Moebius Strip (which include sale of videos, DVDs, games and television broadcasting), the intellectual property rights of which are entirely owned by the Group. If Thru the Moebius Strip is not well received by consumers and/or CG industry players or in the worst case that no revenue can be generated from Thru the Moebius Strip, the revenue to be generated from merchandises would likely be detrimentally affected and may even be none. Whilst the Group's management and production personnel have experience in the CG production of television programs, they have no experience in the CG production of long-format feature films. Although experienced supervisors are being deployed in Thru the Moebius Strip, there is no assurance that the quality of its CG creation and production will commensurate with the currently expected standard of internationally distributed films. There is also no assurance that the revenue from the box office receipts and sales of merchandising products of this film will be satisfactory, as the Group has not entered into any pre-sale contracts as at the Latest Practicable Date. In such event, the Group may incur significant loss.

Further, if *Thru the Moebius Strip* is not well received by consumers and/or CG industry players, the Group may have difficulties in securing new CG production contracts in future. Should the Group fail to secure additional CG production contracts in future or should the distributors refuse to take delivery for quality or other reasons, the Group's financial performance will also be adversely affected. Although the Directors expect that the Group will, in the near future, enter into other co-financed contracts that involve CG creation and production of main television programs, in which the Group's management and production team already have experience, there is no assurance that the necessary co-financing will be forthcoming or that the projects will be commercially successful.

#### Future prospect of the Group is dependent on Thru the Moebius Strip

As at the Latest Practicable Date, the Group was engaged in only one project, namely *Thru the Moebius Strip*. The Directors expect that a substantial amount of revenue will be generated from *Thru the Moebius Strip* and its related merchandises which would include sale of videos, DVDs, games and television broadcasting. Investors should note that future performance of the Group (which include the performance of *Thru the Moebius Strip*) may not be reflected in past financial performance of the Group and the receipt of such revenue by the Group is still uncertain.

The Group has invested an aggregate amount of approximately HK\$46 million (representing approximately 13 times of the Group's consolidated net tangible asset value as at 31st January, 2003) for the production of *Thru the Moebius Strip* as at 31st January, 2003 and approximately HK\$60 million as at the Latest Practicable Date. The Directors expect a further amount of approximately HK\$7.8 million will be required to complete the production of *Thru the Moebius Strip* which include the incorporation of sound effects and voices for characters using talents sourced from the US. In addition, the Group has reserved an amount of approximately HK\$10 million for contingency purposes. Given the substantial size of cost incurred and to be incurred for *Thru the Moebius Strip*, the financial performance of the Group would be highly dependent on the successful launch and acceptance of this project.

#### Change in activity mix of the Group in the future

During the Track Record Period, most of the revenue of the Group were generated from the provision of CG training courses which were of a recurring nature. The Directors expect that a substantial amount of revenue will be generated from *Thru the Moebius Strip* and its related merchandises which would include sale of videos, DVDs, games and television broadcasting. *Thru the Moebius Strip* is funded by the Group's own investment. The risks taken up by the Group in this regard are higher than when the Group is undertaking subcontracted CG projects or other CG productions involving collaborative arrangements where fundings are wholly or partly provided by subcontractors and/or partners. In addition, the Group will undertake own projects and subcontract CG projects or other CG productions in the future. Investors should note that the level of risk in the future will be different from the risk level during the Track Record Period.

#### Failure to complete self-financed and co-financed projects within budget

The Directors expect that a significant portion of the Group's revenue will be generated from CG creation and production. While the Group is actively engaged in discussions with third parties on new projects, the Group is at present engaged in only one project, namely, Thru the Moebius Strip. In addition, the future prospect and financial performance of the Group in the near future are dependent on the public acceptance of this single project on hand. If the revenue generated from Thru the *Moebius Strip* and its related merchandises are not satisfactory, the Group may not be able to generate sufficient revenue for funding other projects of the Group in the future. As production and completion of motion pictures are subject to numerous uncertainty, including financial requirement and personnel availability, the risk exposure of the project is unpredictable. Given (1) the propensity for increase in compensation rates of experienced people required to work on various CG projects, (2) the possibility that additional personnel may be required to work on various CG projects, and (3) the possible need for more costly and advanced equipment, the production budget for CG projects may continue to increase and the Directors believe that it is not uncommon for production expenditure to exceed production budgets. Due to production exigencies which are often difficult to predict, there is no assurance that the Group's existing and future CG projects will be completed within budget to maintain a profit margin for each project. The Group has been and is expected to continue to be required, to expand its employee base by approximately 10% per annum as the circumstances render necessary, increase capital expenditures and procure additional resources and facilities in order to accomplish the scheduled completion of films and other CG creation and production. Should the Group fail to complete the project on hand or fail to complete the job within budget, the Group's financial condition will be materially and adversely affected.

#### Unproven concept of digital cinema

The Directors consider that the concept of digital cinema is new and unproven. The Group has no experience in the digital content distribution and exhibition businesses and only commenced to record revenue from this segment in April 2002, and the amount recorded only amounted to

# approximately HK\$254,000. So far the Group had incurred research and development costs in an aggregate amount of approximately HK\$3.4 million up to 31st December, 2002 and approximately HK\$4.6 million up to the Latest Practicable Date.

Since the Group is still in the progress of exploring the prospect of digital cinemas in the Chinese market, the consumers' reaction remains uncertain. Such risk will also spread to the sourcing, digitalization and organization of film and alternative content for the digital cinema distribution channel. Although there is currently no digital cinema in some of the Group's target markets excluding the PRC and Hong Kong to the best of the Directors' awareness, there is no assurance that there will either be a demand for digital cinemas in the target markets of the Group or a demand from cinema operators for the relevant digital cinema equipment from the Group in the future. Furthermore, under the legally binding memorandum of understanding between the Group and CFG, further discussions will be required as to implementational details, such as locations of cinemas and amount of mutual investments for particular locations, and there is no assurance that there is no demand for the digital cinema equipment from the Group in the successful across the board in relation to all relevant locations. In the event that there is no demand for the digital cinema equipment from the Group in its target markets, the Group would not receive revenue from the sale/franchise of the same (together with its associated share of box office/advertising receipts as the case may be) and the operation and financial performance of the Group may be adversely affected.

In view of the Group's limited operating history, the Group's prospects must be considered in light of the risks, uncertainties and difficulties frequently encountered by companies in the rapidly evolving markets like the one in which the Group operates. The Group may not be successful in addressing or minimizing these risks and uncertainties. Failure to do so could have a material adverse effect on the business, operations and financial condition of the Group.

#### Limited operating history and history of operating loss

The Group commenced its business operation in January 2000. The limited operating history of the Group makes evaluating its business relatively difficult. During each of the two years ended 31st December, 2002 and the one month ended 31st January, 2003, the Group incurred net losses of approximately HK\$10,317,000, HK\$17,429,000 and HK\$1,890,000 respectively. The Group's future operating results may be subject to fluctuations owing to a variety of factors, including competition and success in implementing its business strategies, expansion plans and ability to secure new CG projects and execute them successfully within efficient time frame. If the Group is unable to generate sufficient revenue to meet its operating expenditure, such operations will have to be funded by proceeds from the New Issue and other financial activities and there is no assurance that the Group will be able to generate profits, cashflows and dividend in the future.

#### Limited free float of Shares in the market within one year from the Listing Date

Upon completion of the New Issue and Capitalization Issue but before the exercise of the Sotas Option, the public float of the Shares will be approximately 27.6% of the total issued share capital of the Company, whilst the remaining balance of approximately 72.4% of the total issued share capital of the Company will be held by the Initial Management Shareholders (approximately 67.0%) and the Significant Shareholders (approximately 5.4%). However, given that the Shares held by certain public Shareholders, namely, Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited and the Pre-Listing Investors (i.e. Overseas China Town and CITIC International Assets Management Limited) are subject to moratorium periods of 12 months (in aggregate holding approximately 16.4%), there will be only 87,004,064 Shares, representing approximately 11.2% of the total issued share capital of the Company, which can be freely transferable in the market within one year from the Listing Date (assuming no issue of new Shares during the same period). Potential investors should

note the effect of limited free float of Shares in the market on the realization of Shares in the market. Furthermore, there can be no guarantee that an active trading market for the Shares will develop (or if it does develop, there can be no guarantee that the market will be sustained) following the completion of the New Issue and the Capitalization Issue.

#### Reliance on financial assistance provided by certain Shareholders and their related parties

During the Track Record Period, the Group's operations have been mostly financed by loans from certain Shareholders (namely Anthony Neoh, Sotas Limited, Richard Yingneng Yin and Raymond Neoh) and their related parties (namely William Ka Chung Lam and Kingsway Finance). As at 31st May, 2003, the aggregate amount of loans owed to such parties by the Group amounted to approximately HK\$25.9 million, which were applied to support the Group's operation (although total sums of approximately HK\$10.6 million, HK\$2.6 million and HK\$12.7 million of the said loans (i) was repaid by the Group on the Latest Practicable Date; (ii) is scheduled to be repaid by the Group before the Listing Date, and (iii) is scheduled to be repaid until the later of 12 months from 31st May, 2003 or a date upon which such repayment would not have material adverse effect on the operation of the Group and implementation of the Group's business objectives as set out in this prospectus respectively).

Besides, each of Anthony Neoh and Raymond Neoh, both being Directors and Initial Management Shareholders, has given a number of personal guarantees in respect of certain loans amounting to an aggregated sum of HK\$34.1 million made to the Group. The lenders of such loans are the Bank of China, Shenzhen Commercial Bank, E-Talent and Kingsway Finance as at 31st May, 2003. The loans from the Bank of China and Shenzhen Commercial Bank are to be repaid according to their respective terms of their respective loan agreements on 30th October, 2004 and 21st March, 2005 respectively; whilst the loans from E-Talent and Kingsway Finance of HK\$5.8 million and HK\$2 million respectively were repaid on the Latest Practicable Date and 26th June, 2003 respectively.

The aforesaid repayment and scheduled repayment of the loans from certain Shareholders, their related parties, E-Talent and Kingsway Finance were and will be repaid out of the cash proceeds from the Pre-Listing Investors, which repayment would have a significant impact on working capital and cashflow of the Group. Given such significant impact, the Directors have confirmed that the proceeds from the New Issue will not be used to repay the outstanding indebtedness of the Group and that the Group will repay the same from internal resources.

As the Group's aforesaid reliance on financial assistance provided by certain Shareholders and their related parties will terminate upon the Listing Date, there can be no assurance that the Group would generate sufficient cash flow from its operations in the near future, which operations will have to be funded by the proceeds from the New Issue and other sources of financing. In the event that the Group is unable to obtain adequate financing, its business plan, the existing operations, performance and prospects of the Group may be adversely affected.

#### Potential competition with Forward Strategic and DCDC

Forward Strategic, a Shareholder, has an indirect shareholding interest of approximately 21.4% in DCDC. The remaining shareholding interests of DCDC are held by independent third parties not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. DCDC is principally engaged in CG production, in particular 3D animation in Hong Kong. Currently, to the best knowledge of the Directors, there is no direct competition between the Group and DCDC. However, as DCDC continues to secure further CG projects, it is possible that DCDC will engage in projects which may be in competition with those of the Group. Save as disclosed above, to the best of the Directors' knowledge, DCDC has not

secured any CG projects which compete or may compete with those of the Group. In the event that any competition between the Group and DCDC occurs, the profitability and business prospects of the Group may be adversely affected.

#### Failure to protect the Group's intellectual property rights and proprietary rights

The Group owns all the copyrights and other related rights of *Thru the Moebius Strip*. However, the Group's rights to *Thru the Moebius Strip* have not been registered in any jurisdictions. The Directors expect that the copyrights of other films produced by or co-produced by it in the future will be governed by the respective service contracts made between the Group, the film directors and two other CG professionals involved. The Directors consider that it is vital to the Group that the intellectual property rights of the films in which it has invested are well protected. However, there is no guarantee that the Group will be able to protect its intellectual property rights and in particular to cope with piracy problems successfully. The spread of piracy versions of videos, DVDs, VCDs and tapes of *Thru the Moebius Strip* may seriously undermine the receipts of sales from the authentic version of videos, DVDs, VCDs and tapes of *Thru the Moebius Strip* and even to the film's merchandising products and related games (including on-line games). Such sales receipts are expected to be a major source of revenue of the *Thru the Moebius Strip* project and other future projects. In the event the Group fails to protect its intellectual property rights effectively, the Group's profitability will be adversely affected.

Besides, the Group has applied for registration of certain service marks and trademarks in Hong Kong. Details of registration are set out in the paragraph headed "Intellectual property" under the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus. There is no guarantee that those applications will not be opposed by third party or parties which claim(s) to have the proprietary rights to use those service marks or trademarks.

The Group currently does not have any registered patent, and does not intend to apply for any patent registration, for any of its solutions developed from the digital content distribution and exhibitions business. In applying for the patent registration, the Group will be required to disclose the origin source code and system configuration design of its solutions. The Directors consider that once the information is disclosed, it can easily be duplicated by the Group's competitors or potential competitors. Therefore, the Directors are of the view that patent registration is not in the interest of the Group. Notwithstanding the Group's solutions were developed by the chief technology officer of the Group for protecting the Group's rights and interest in its solutions. However, in the absence of any patent registration, it may be difficult for the Group to establish a claim against any unauthorised use or unauthorised disclosure of the Group's proprietary rights, which may result in exploitation of the Group's resources and may adversely affect the Group's operations.

In addition, although the Group has proprietary rights of its computer animation files, computer software and hardware and database of thousands of digital models, sets, textures and surface appearances created by the production team, it has not applied for, nor does it intend to apply for, the registration of any intellectual property rights in relation thereto. Therefore, should the Group's proprietary rights in these assets be infringed, it may be difficult for the Group to establish any claim against such infringement.

#### Risk of infringement claims by third parties

As at the Latest Practicable Date, the Group did not have any on-going litigation regarding infringement of proprietary rights. However, there can be no assurance that there will be no litigation from third parties against the Group alleging infringement of their proprietary rights by the Group. In the event of a successful claim of infringement by any of such third parties and/or the Group's failure or inability to develop non-infringing technology or to obtain a licence relating to the infringed or similar technology on a

timely basis, there is a risk that the Group's business would be adversely affected. In addition, even if the Group is able to obtain a licence relating to the infringed or similar technology from such third parties, the licence fees payable by the Group could be substantial, which may accordingly adversely affect the Group's business operations and financial performance.

#### Reliance on the ticketing system of customers

Under the Group's revenue model, the Group is/will be entitled to share revenues for box office receipts from showing films and alternative programs in digital cinemas. The Group's revenue entitlement is/will be recognized upon submission of cinema's operations statements. Currently, the Group is entitled to share box office receipts with the Grand Theatre and Shanghai Paradise pursuant to the respective agreements with each of them. However, the relevant box office receipts from which the Group shall be entitled to revenue sharing are subject to passive reporting by the Group's customers based on their own ticketing system. Although the Group adopts the policies to conduct thorough review of the ticketing system of its potential customers (which includes site visit and testing of ticketing/reporting system, and to make it a pre-requisite for its customers to install an acceptable computer ticketing system, the Group has to rely on the ongoing reliability of ticketing and reporting system operated by their third party customers. In so doing, the Group has been making regular efforts to monitor its customers' ticketing system in terms of (i) the controls over inputs; (ii) daily reconciliation of cash receipts and computer box office receipts record; (iii) paper audit trail; and (iv) timeliness of reporting. In the event of abuse and default of the third party ticketing and reporting system, the Group would be adversely affected.

#### Risks associated with expansion into overseas markets

In order to capitalise on business opportunities overseas, the Group intends to establish regional presence in selected countries including US and India. The Group already has an operation in Singapore for the sale of the Group's digital cinema products. Inherently, the Group faces a number of business risks in conducting operations overseas, and such risks include (1) differences in legal and regulatory requirements; (2) difficulties in seeking supporting services; (3) differences in tax regimes; (4) fluctuations in currency exchange rates; (5) burdens in complying with foreign laws and regulations; (6) administrative difficulties in staffing and managing foreign operations; and (7) changes in political and economic conditions. As a foreign-controlled entity, the Group may be subject to more onerous regulatory or compliance requirements than domestic entities offering similar products or services. The pursuit of regional expansion plans may shift the Group's business focus and put a strain on management and human resources. There is no assurance that the capital and other resources expended by the Group for its overseas market expansion plan may be recouped, nor that the Group will be able to gain a foothold in the selected overseas markets.

#### Legal and other regulations

As the Group's business is focused in the high technology sector, where the applicable regulatory regime is not sufficiently mature when compared with other business areas, there is no assurance that any future changes to the applicable regulatory regime will not adversely affect the Group. Given the Group's digital content distribution and exhibition business is targeted to extend to further global markets, there is no assurance that the Group will be able to comply with all the legal and regulatory requirements as would be required in the targeted market. The regulatory environment of the Group's target markets is also unpredictable.

#### Risks associated with inability to obtain third party technology licenses

The Group has been endeavouring to acquire technology through the establishment of strategic relationships with technology partners globally. There is no assurance that such technology will be forthcoming to it through licensing on commercially viable terms. The Group's inability to obtain technology licenses may delay or compromise its ability to introduce new services, which may have an adverse effect on the future performance of the business.

#### Inability to successfully expand through acquisitions or alliances

As part of the Group's growth strategy, the Group expects to acquire companies, distributorships and assets that the Directors believe should enhance the Group's income growth, operations and profitability. Such acquisitions made by the Group may need funding from its internally generated cash flow or potentially diluting issues of equity securities, each of which could materially and adversely affect the business of the Group. Such acquisitions could also involve the following risks:

- the difficulties in the integration and assimilation of the operations, technologies, products and personnel of the acquired businesses;
- the diversion of management's attention from other business concerns;
- the availability of favourable financing for future acquisitions;
- the potential loss of key employees of any acquired business; and
- the lack of familiarity with Asian market conditions and business practices.

The Group will need to be able to successfully integrate the acquired businesses, and its failure to do so could have a material adverse impact on the business, results of operations and financial condition of the Group.

#### Failure of industry partners to provide adequate support

The Directors believe that the success of *Thru the Moebius Strip* will, to a significant extent, depend on the reputable members of the industry that the Group is cooperating with, namely Jean Moebius Giraud, a French artist who has contributed designs for *Tron*, *Willow*, *Masters of the Universe*, *Alien*, *The Abyss*, *The Fifth Element*<sup>1</sup> and David Kirschner, a Hollywood animation producer. GDC Entertainment Limited has entered into agreements with each of Jean Moebius Giraud and David Kirschner with respect to *Thru the Moebius Strip*, a summary of the principal terms of which are set out below.

Tron is a Hollywood movie and its story line is an adventure about a hacker who is split into molecules and is transported into a computer. *Willow* is a Hollywood movie, the story line of which is about Willow, a small farmer/apprentice magician, who meets a great swordsman and together they journey through a war-torn land of magic and monsters, to save a baby princess from death at the hands of an evil queen. *Masters of the Universe* is a Hollywood movie and its story line is a fantasy action-adventure between a group of freedom fighters, led by the He-man and the evil Skeletor who wants to take over the planet. *Alien* is a Hollywood movie which is about an adventure of the crew of a mining ship which was investigating an SOS, lands on a distant planet. The crew discovers some strange creatures and investigates. *The Abyss* is a Hollywood movie which is about a civilian diving team which is enlisted to search for a lost nuclear submarine and faced danger while encountering an alien aquatic species. *The Fifth Element* is a Hollywood movie which is about a beautiful young woman who holds the secret that can defeat an evil alien force.

Service agreement with Jean Moebius Giraud Date 15th January, 2000 : Period : From 15th January, 2000 until the earlier of completion of Thru the Moebius Strip or until termination of Jean Moebius Giraud's engagement by way of mutual agreement in writing between the parties Contents Engagement of Jean Moebius Giraud as the conceptual artist of Thru the : Moebius Strip Terms : Jean Moebius Giraud will during the term of the agreement: serve as the conceptual artist of Thru the Moebius Strip furnish conceptual designs, art works, services etc. to GDC Entertainment Limited for the production of Thru the Moebius Strip provide advice and assistance in the production and direction of *Thru* the Moebius Strip GDC Entertainment Limited will during the term of the agreement: pay Jean Moebius Giraud service fee and cost of relocation of Jean Moebius Giraud and his family to the United States Other provisions Jean Moebius Giraud assigns the whole of Jean Moebius Giraud's property, : right, title and interest in and to Thru the Moebius Strip and the entire copyright and all other rights in connection with Thru the Moebius Strip to

Assignment of intellectual property rights from Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong to Moebius Strip Limited

GDC Entertainment Limited in and to all products of his services.

Date	:	15th January, 2000
Assignors	:	Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong
Assignee	:	Moebius Strip Limited
Terms	:	the Assignors, who are the absolute, legal and beneficial co-owners of the copyright and all other rights, consents and permissions throughout the world in and to <i>Thru the Moebius Strip</i> ("Film"), assigned to the Assignee the Rights (as set out hereunder) at the Consideration (as set out hereunder)
Rights	:	all the Assignors' copyright (whether vested contingent, present or future to or in the Film) and all other rights, consents and permissions throughout the world in and to the Film and all necessary rights in and to the screenplay and all other literary material on which the Film is based and all other literary, artistic, musical and dramatic material created for as a consequence of production and all wherever situated
Consideration	:	US\$300,000.00 (equivalent to HK\$2,340,000)

Subsequent matters : On the same date of 15th January, 2000 (and as supplemented by a supplemental agreement dated 2nd May, 2003), Moebius Strip Limited assigned all the Rights and its other rights, title and interest under the captioned Assignment to GDC Entertainment Limited (formerly known as GDC Enterprises Limited) for (i) US\$60,000 (which has been paid); (ii) deferred "net profit" from the Group's production of the Film up to a maximum of US\$240,000, should the Group's film production of the Film generates a "net profit" ("Deferment"); and (iii) 3% of the "net profit" of the Group's production of the Film in excess of US\$240,000 from time to time ("Royalty"). For clarity, in the event that the Film fails to generate a positive "net profit", neither Deferment nor Royalty shall be payable.

Letter agreement in respect of the assignment of rights to the Film to GDC Entertainment Limited (formerly known as GDC Enterprises Limited)

Date	:	1st September, 2000		
Assignor	:	Jean Moebius Giraud		
Assignee	:	GDC Entertainment Limited (formerly known as GDC Enterprises Limited)		
Assignment	:	assignment of all of Jean Moebius Giraud's right, title and interest in and to, inter alia, the original idea, underlying literary and artistic material of any kind or nature upon which the Film is based and; all exclusive exploitation rights of whatever nature in respect of the Film in all languages		
Consideration	:	for good and valuable consideration, the receipt of which was acknowledged by Jean Moebius Giraud		
Service agreement with David Kirschner				
Date	:	13th February, 2002		
Period	:	From 13th February, 2002 and extend throughout the production and delivery of <i>Thru the Moebius Strip</i> to GDC Entertainment Limited		
Contents	:	Engagement of David Kirschner's supervisory production and consulting services as producer of <i>Thru the Moebius Strip</i>		
Terms	:	<ul> <li>David Kirschner will during the term of the agreement:</li> <li>render certain supervisory production and consulting services as producer</li> </ul>		
		<ul> <li>GDC Entertainment Limited will during the term of the agreement (i.e. from 13th February, 2002 and extend throughout the production and delivery of <i>Thru the Moebius Strip</i> to GDC Entertainment Limited):</li> <li>pay David Kirschner service fee and cost of relocation</li> <li>give credit (in the form of name display at the end of the movie) to David Kirschner as producer of <i>Thru the Moebius Strip</i></li> </ul>		

Other provisions

: David Kirschner assigns the whole of David Kirschner's rights in and to all results and proceeds of his services under this service agreement to GDC Entertainment Limited

The Directors consider that the abovementioned industry partners are vital in maintaining the high quality of the film, and their names have the function of enhancing the profile of the project. Should these industry partners cease to provide services or withdraw their support to the Group and the Group fails to find comparable replacement, the popularity of *Thru the Moebius Strip*, which is the Group's only film project in the pipeline, may be adversely affected.

# Failure to successfully implement the Group's business plans and strategies and adequate system of controls to manage future growth

The Directors have prepared the business plans and strategies after due enquiry by reference to, among other matters, the Group's own market position and competitive advantages, the expected future prospects of the CG production and digital cinema industry, the envisioned market potential of products under development and other factors considered relevant. The Directors formulated such business plans and strategies based on a number of assumptions, details of which are set out in the section headed "Statement of business objectives" of this prospectus. There is no assurance that these business plans and strategies can be successfully implemented in the future. Should there be any material change in the Group's operating environment which results in its failure to implement any of the business plans and the Directors are not able to formulate new development strategies to secure its future growth, the Group's prospect may be adversely affected.

On the other hand, the Group has been expanding its operations rapidly in recent years, both in terms of size and scope. This growth may place a significant demand on the Group's management systems and resources. The Directors believe the Group's ability to maintain an adequate and effective system of controls and staff management to keep pace with its growth is a critical success factor for survival. Should the Group fail to implement the system of controls and staff management needed to support growth, the business performance of the Group may be adversely affected.

#### Failure in future fund raising

The Directors do not rule out the possibility of further fund raising, in equity and/or debt market, in the future for the purpose of financing the Group's business development of CG creation and production, digital content distribution and exhibition and CG training courses. The Directors cannot provide any assurance that the Group will be successful in obtaining sufficient future financing, or even if such financing is available, that the Group will obtain it on favourable or acceptable terms. If the Group fails to obtain sufficient financing on commercially acceptable terms in the future, it may have a material adverse effect on the Group's business, operating results and financial condition.

#### Enhancement of operational, financial and management information system

To continue to accommodate growth, the Group will be required to implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvement and maintenance of the Group's accounting system, other internal management systems and backup systems. In achieving such system enhancements, the Group's management team has to take up increased duties and responsibilities. Additionally, the Group will also need to continue to hire, train, motivate and manage its employees to provide adequate enhancement of the Group's system. Any failure to accomplish one or more of these activities on a timely and cost-effective basis can have a material adverse effect on the Group's business, financial condition and operation.

#### Reliance on key executives and personnel

The Group's business has been administrated and will continue to be administrated by certain key personnel including Raymond Neoh (as chief executive officer of the Company) and Dr. Chong Man Nang (as chief technology officer of the Company). These key personnel, in particular, Raymond Neoh and Dr. Chong Man Nang have paved the way for setting and implementing the Group's business objectives in exploring the CG production and digital cinema industry respectively. Although Raymond Neoh had entered into three years fixed term service contract with the Group whilst Dr. Chong Man Nang had entered into a service contract with the Group, their departure from the Group will detrimentally affect the Group's operation.

The Group's success continues to depend, to a significant extent, on the Group's ability to identify, attract, hire, train and retain qualified professionals, creative, technical and managerial personnel. As such, the Group's inability to hire, train and retain such professionals will also have a material adverse effect on the Group's operation.

# Reliance on high technology and computer systems for timely and successful development of feature films and other CG products

One of the Group's principal assets is a large base of computer animation files. The Group will suffer if the files are destroyed and/or the files cannot be located due to ineffective asset management. The Directors cannot assure that the Group will not experience such difficulties.

As the Group is dependent on, amongst other things, a large base of computer software and numerous computer hardware for the development and production of the Group's animated feature films and other CG products, any error or defect in the software, failure in the hardware or a failure of the backup facilities can result in significant delay in the production work and can result in potentially significant delays in the completion dates of the Group's feature films and other CG products. Significant delays in production can have a material adverse effect on the Group's business, operating results and/or financial condition.

#### Reliance on technological advancement to be successful

The Directors expect that the Group will be required to enhance the Group's technologies and to develop new technologies in order to be successful in the CG and digital cinema industry. There is no assurance that the Group will be successful in enhancing the existing technologies or in developing and utilizing new technologies, or that its competitors will not develop technology that is equivalent or superior to the Group's technologies or that makes the Group's technologies obsolete. If the Group is unable to develop enhancements to the existing technologies or new technologies as required, its business, operating results or financial condition can be materially adversely affected.

#### Policy of re-deploying retained profits in financing capital commitments

The Group's policy for the longer term is to utilise retained profits to reduce its debts used for financing acquisition of fixed assets, with a view to reducing interest costs and increasing the Group's performance through earnings per Share. Therefore, even if the Group's future operations result in significant revenues and profits, there can be no assurance that any dividend will be paid in the foreseeable future.

#### **RISKS RELATING TO THE INDUSTRY**

#### Competition in the CG market

The market for CG industry is new, rapidly evolving and intensely competitive. According to the Roncarelli Report 2001, there are over 8,000 facilities worldwide that are producing computer animation with sophisticated equipment and systems. Since the Group mainly concentrates on long-format CG production and targets markets in North America, Japan and Europe, the Directors consider that at present competition mainly comes from small and medium sized production houses in these regions where the CG technology is sophisticated. There is no assurance that the Group will be able to gain or maintain a competitive edge over these competitors.

#### Earnings in the entertainment industry are highly volatile

The entertainment industry is a realm of constant changes in respect of interests, preferences, moods, thoughts, inclinations and dispositions. Socio-economic transformation flowing from globalisation and financial developments have rendered the assessment of public interests and tastes in the movie, television broadcasting and general entertainment production difficult. Besides, the duration and sustainability of today's television viewers and movie goers are highly unpredictable and hard to assess. Viewers and audiences may become bored after they have seen too many productions with digital content and they may turn to other forms of entertainment for diversity and fresh sensations and experience. In order to maintain the interest of the viewing public in CG productions, increasing costs have to be put in to ensure the highest quality production in terms of virtual images and persistent attraction to the viewers on the screen. This will increase the costs of production and may become a growing financial burden to producers and the production houses. Another influential factor over the persistence of consumption habits and trends is the overall economic conditions in respect of whether and how much the average person affords to spend on entertainment. In times of economic downturn, it is obvious that people tend to be more careful with what and how they spend their money. There is no assurance that the interests of the viewers and the audience in general in CG productions at present will not shift and continue indefinitely in the future and as a result, earnings in the entertainment industry are highly volatile.

#### **RISKS RELATING TO REGULATIONS, ECONOMICS AND POLITICS**

#### Economic and legal risks associated with conducting business in the PRC

During the Track Record Period, the Group's turnover was entirely derived from the PRC. In addition, the Group's principal production operations are situated in the PRC. The PRC economy has experienced significant growth in the past decade, but such growth has been uneven across geographic and economic sectors. There can be no assurance that such growth will continue or that any possible slowdown in the future will not have a negative effect on the Group's business. Also, the regulatory environment in the PRC's film industry is subject to changes. Whilst the general direction is one of liberalisation in conjunction with the PRC's accession into the WTO, it is impossible to forecast accurately how future changes in regulation will affect the Group's business plans in the PRC.

The National People's Congress, or its Standing Committee, is responsible for the passing of new laws of the PRC and any amendments thereto. The PRC legal system is based on written statutes. Court judgments are therefore not legally binding, although judges in subsequent cases will often make reference to them in forming their judgment. The interpretation of the PRC laws may be subject to policy changes reflecting the domestic, political and social developments at the time.

Since 1979, to facilitate foreign investments and to meet the demand of investors, the PRC government has been developing and modifying its economic and legal systems by promulgating a series of economic related laws and regulations. As the legal system of the PRC keeps evolving, the promulgation of new legislation, the changes made to existing laws and regulations and the precedence of national laws over local regulations may have negative impact on foreign investors. Although throughout the past decades, the legal system of the PRC has in general been evolving in favor of foreign investors, there is no assurance that the future changes in, and modifications of, the laws and regulations in the PRC will be advantageous to foreign investors as in the past. Uncertainty therefore exists as to the effect of any changes in, and development of, any laws and regulations in the PRC. There is also no assurance that any changes in the interpretation of the PRC laws and regulations in the future will not have any adverse effect on the business operations and prospect of the Group.

# Difficulties in expanding the Group's business in other regions due to regulatory, political and economic uncertainties

The Group targets the global markets in relation to its CG creation and production business and in terms of its digital content distribution and exhibition business, it is initially targeting the PRC and Asia Pacific markets, extending to the global markets at a later stage. In extending its business coverage to the global markets, the Group may be subject to various risks associated with conducting its business in these markets, regulatory issues towards the provision of digital content distribution and exhibition solutions and cultural differences which will give rise to various degree of acceptance of the Group's CG creation and production products. In view of these risks, the Group may have to revise its business plans from time to time which may have an adverse impact on the Group's business operation and development prospect.

#### Volatility of worldwide economic climate

Since mid-1997, many countries in the Asia Pacific region have experienced a significant economic downturn and a decline in the value of their currencies. As a result of the regional economic crisis, governments across the region have imposed strict economic policies, including raising interest rates and, in some cases, restricting the remittance of foreign currencies, to defend their weakening currencies. These policies have caused an enduring adverse effect on the region's economy. Although recently the region's economy has begun to stabilize and is showing signs of recovery, the estimated growth of the gross domestic product and investors' confidence for the region are still lower than that before the economic crisis.

#### Currency exchange rate

It is anticipated that a substantial portion of the Group's revenues will be denominated in US\$ whereas its expenses and liabilities will be denominated in US\$, HK\$ and RMB. In future, the Group may also expand into other Asia Pacific regions, such as Singapore and accordingly may generate revenues and incur expenses in other currencies. With effect from 1st January, 1994, the PRC government implemented a unified floating exchange rate system based on supply and demand in the market. Under such system, the People's Bank of China ("PBOC") publishes a daily exchange rate for RMB based on the inter-bank exchange rate of RMB of the preceding day. Foreign currency designated banks use the exchange rate published by the PBOC as a basis and enter into foreign exchange transactions at exchange rates within the floating range specified by the PBOC. On the other hand, although the Hong Kong dollar is currently pegged against the US dollar, there is no assurance that the linkage of the Hong Kong dollar to the US dollar will not be altered or unpegged in the future. As a result, the Group will be subject to exchange rate fluctuation with respect to other currencies.

#### **RISKS RELATING TO THE NEW ISSUE**

#### Potential dilution effect of the Sotas Option

On 5th June, 2003, the Group has granted to Sotas Limited, an investment holding company beneficially owned by a family trust established by Madam Chan Tan Ching Fen and is an Initial Management Shareholder, the Sotas Option, which entitles Sotas Limited to purchase 504,870 Shares (representing 8,331,615 Shares and 1.1% of the total issued Shares immediately after the completion of the New Issue and Capitalization Issue) from the Company within 36 months from the Listing Date at an exercise price of US\$600,000 (equivalent to HK\$4,680,000) for the entire Sotas Option. The Shares issued under the Sotas Option are subject to a moratorium of 12 months from the Listing Date. The cost per Share under the Sotas Option is approximately HK\$0.56 representing approximately 44% discount to the Issue Price. Should the Sotas Option be exercised in full, there will be a dilution effect of approximately 1% on the shareholders.

#### Dilution of Shareholders' interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance its expansion or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata and/or pari passu basis to existing Shareholders, the percentage ownership of the Shareholders may be diluted and their existing securities may have rights, preferences and privileges inferior to those of the new Shares.

# INFORMATION ABOUT THIS PROSPECTUS AND THE NEW ISSUE

#### DISCLOSURE OF INFORMATION ON THE NEW ISSUE

The New Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms. No person is authorised in connection with the New Issue to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by the Company, Asia Investment Capital, CM-CCS, Kingsway Capital, the Underwriters, any of their respective directors or any other parties involved in the New Issue.

#### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained herein, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the GEM Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

### CONSENT OF THE BERMUDA MONETARY AUTHORITY

The Bermuda Monetary Authority has given its consent to the issue of the Shares under the New Issue on the terms of this prospectus and the Application Forms and to the issue of the Shares under the Capitalization Issue and upon the exercise of the options granted under the Share Option Scheme and, subject to certain conditions, the issue of further Shares up to the total amount of the authorised share capital of the Company from time to time. In granting such permission and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

### THE NEW ISSUE

#### Fully underwritten

The New Issue is an offer by the Company of the 66,300,000 New Shares, which are being offered in Hong Kong under the Public Offer and the Placing at the Issue Price. Details of the structure of the New Issue are described in the section headed "Structure and conditions of the New Issue" in this prospectus.

This prospectus is published in connection with the New Issue and, together with the Application Forms, sets out the terms and conditions of the New Issue.

The New Issue is sponsored by the Sponsor and fully underwritten by the Underwriters pursuant to the Underwriting Agreement. For further information in relation to the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

# INFORMATION ABOUT THIS PROSPECTUS AND THE NEW ISSUE

#### Structure of the New Issue

Details of the structure of the New Issue, including conditions thereof, are set out in the section headed "Structure and conditions of the New Issue" of this prospectus.

#### **OFFER OF NEW SHARES**

#### Hong Kong

Subject to hereinafter stated, no action has been or will be taken in any jurisdiction other than Hong Kong and Bermuda to permit any public offering of the New Shares or the distribution of this prospectus in Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, any offer or invitation in any jurisdiction other than Hong Kong or in any circumstance in which such offer or invitation is not authorized to any person to whom it is unlawful to make an unauthorized offer or invitation. Persons into whose possession this prospectus may come is required by the Company and the Sponsor to inform themselves about and to observe such restrictions.

#### Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the New Shares have not been offered or sold, or made the subject of an invitation for subscription or purchase, and may not be offered or sold, or be made the subject of an invitation for subscription or purchase, and this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, or purchase, or purchase, or distributed or distributed nor may they be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

#### APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for listing of and permission to deal in its existing Shares, the New Shares, any Shares which are to be issued pursuant to the Capitalization Issue and any Shares which may fall to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme and/or the Sotas Option on the GEM.

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in its securities on any other stock exchange.

Pursuant to Rule 11.23 of the GEM Listing Rules, at the time of listing and at all times thereafter, (i) the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public; (ii) the market capitalization of the share capital of the Company in the hands of the public must be at least HK\$30 million; (iii) the share capital of the Company in the hands of the public should, as at the time of listing, be held among at least 100 persons.

#### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the New Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase or disposal of or dealing in, the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, the Sponsor, the Underwriters and their respective directors and any other person involved in the

# INFORMATION ABOUT THIS PROSPECTUS AND THE NEW ISSUE

New Issue accepts responsibility for the tax effects on, or liability of, holders of Shares resulting from the subscribing for, or purchasing, holding, disposing, dealing or the exercise of any rights in relation to the New Shares.

#### REGISTRATION

All Shares in issue and to be issued as mentioned in this prospectus shall be registered on the Company's branch register of members to be maintained by the Company's Hong Kong branch share registrar, Standard Registrars Limited. The Company's principal register of members will be maintained by The Bank of Bermuda Limited in Bermuda. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM.

#### **STAMP DUTY**

Dealings in the Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

#### PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and on the relevant Application Forms.

#### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

#### DEALINGS AND SETTLEMENT

Dealings in the Shares are expected to commence on Monday, 4th August, 2003.

Shares will be traded in board lots of 2,000 Shares each.

Dealings in Shares on the GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on the Stock Exchange's teletext page information system.

No temporary documents of title will be issued. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second business day thereafter.

If you are unsure about the procedures for dealings and settlement arrangements on the Stock Exchange and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

# DIRECTORS AND PARTIES INVOLVED IN THE NEW ISSUE

# DIRECTORS

Name	Address	Nationality				
Chairman (Non-executive Director)						
Mr. Anthony Francis Neoh	Apartment 22A, Block 4 Cavendish Heights Perkins Road Hong Kong	Chinese				
Executive Director						
Mr. Raymond Dennis Neoh	Flat B, 4th Floor, Block 1 Grandeur Villa No. 21 Tat Chee Avenue Yau Yat Chuen Kowloon Hong Kong	Chinese				
Non-executive Directors						
Mr. David Deng Wei	22 Liao Yang Street Nan Jiang District Harbin The PRC	Chinese				
Mr. Richard Yingneng Yin	Flat 4E, Tower 7 South Horizons Apleichau Aberdeen Hong Kong	Australian				
Independent non-executive Directors						
Mr. Gordon Kwong Che Keung	House 2, Palm Cove Villas 28 Ng Fai Tin Hang Hau, Wing Lung Road Clearwater Bay Kowloon Hong Kong	British				
Professor Japhet Sebastian Law	Flat 1B, Residence 4 Chinese University of Hong Kong Shatin New Territories Hong Kong	British				
Mr. Stephen Scharf	3274 Longridge Avenue Sherman Oaks CA 91423 US	US				

# DIRECTORS AND PARTIES INVOLVED IN THE NEW ISSUE

# PARTIES INVOLVED IN THE NEW ISSUE

Sponsor	Asia Investment Capital Limited Units 1402–3, 14th Floor China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Joint Financial Advisers	CM-CCS Securities Limited 26th Floor, World Wide House 19 Des Voeux Road Central Hong Kong
	Kingsway Capital Limited 5th Floor Hutchison House 10 Harcourt Road Central Hong Kong
Lead Manager and Bookrunner	CM-CCS Securities Limited 26th Floor, World Wide House 19 Des Voeux Road Central Hong Kong
Underwriters	CM-CCS Securities Limited 26th Floor, World Wide House 19 Des Voeux Road Central Hong Kong
	Quest Stockbrokers (HK) Ltd. 2302 & 24th Floor, Onfem Tower 29 Wyndham Street Central Hong Kong
	Tai Fook Securities Company Limited 23rd–26th Floor, New World Tower I 16–18 Queen's Road Central Hong Kong
	CSC Securities (HK) Limited Units 3204–7, Cosco Tower 183 Queen's Road Central Hong Kong

Crosby Limited 2701 Citibank Tower 3 Garden Road Central Hong Kong

Quam Securities Company Limited Room 3308, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong

Chun Yick Securities Limited 10th Floor, Wings Building 110–116 Queen's Road Central Hong Kong

Asia Investment Capital Limited Units 1402–3, 14th Floor China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Hong Kong

First Asia Finance Group Limited Room 1502, 15th Floor World Wide House 19 Des Voeux Road Central Hong Kong

Sanfull Securities Limited 20th Floor, Far East Consortium Building 121 Des Voeux Road Central Hong Kong

DL Brokerage Limited 1st Floor, Wing's Building 110–116 Queen's Road Central Hong Kong

Hong Tong Hai Securities Limited Units 3606, 36th Floor, China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Sheung Wan Hong Kong

	Partners Capital International Limited 1305, 13th Floor
	9 Queen's Road Central
	Hong Kong
Legal advisers to the Company	As to Hong Kong Law
	Gallant Y.T. Ho & Co.
	4th Floor Jardine House
	1 Connaught Place
	Central
	Hong Kong
	As to Bermuda Law
	Conyers Dill & Pearman
	2901 One Exchange Square
	8 Connaught Place
	Central Hong Kong
	Hong Kong
	As to PRC Law
	Zhongzi Law Office
	Suite 901, Union Plaza
	20 Chaowaidajie
	Beijing 100020
	The PRC
Legal adviser to the Underwriters	As to Hong Kong Law
and the Sponsor	P.C. Woo & Co.
	1225 Prince's Building
	10 Chater Road
	Hong Kong
Auditors and reporting accountants	PricewaterhouseCoopers
	Certified Public Accountants
	22nd Floor
	Prince's Building
	Central
	Hong Kong
Property valuer	Grant Sherman Appraisal Limited
Property valuer	Grant Sherman Appraisal Limited Room 904
Property valuer	Room 904 9th Floor, Harbour Centre
Property valuer	Room 904 9th Floor, Harbour Centre 25 Harbour Road
Property valuer	Room 904 9th Floor, Harbour Centre 25 Harbour Road Wanchai
Property valuer	Room 904 9th Floor, Harbour Centre 25 Harbour Road
Property valuer Receiving banker	Room 904 9th Floor, Harbour Centre 25 Harbour Road Wanchai
	Room 904 9th Floor, Harbour Centre 25 Harbour Road Wanchai Hong Kong
	Room 904 9th Floor, Harbour Centre 25 Harbour Road Wanchai Hong Kong Hang Seng Bank Limited

# **CORPORATE INFORMATION**

CORPORATE INFORMATION				
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda			
Head office and principal place of business	Suite 1205 No. 625, King's Road North Point Hong Kong			
Website address	www.gdc-world.com (Note 1)			
Company secretaries	Amelia Mak Lai Yu Ira Stuart Outerbridge III (Note 2)			
Compliance officer	Raymond Dennis Neoh			
Qualified accountant	Adrian Mak Yau Kee, FCA, AHKSA			
Members of audit committee	Gordon Kwong Che Keung — <i>Chairman</i> Professor Japhet Sebastian Law Stephen Scharf			
Members of remuneration committee	Professor Japhet Sebastian Law — <i>Chairman</i> David Deng Wei Richard Yingneng Yin			
Authorised representatives	Raymond Dennis Neoh Amelia Mak Lai Yu			
Bermuda resident representative	John C. R. Collis			
Bermuda deputy resident representative	Anthony D. Whaley			
Principal share registrar and transfer office	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda			
Hong Kong branch share registrar and transfer office	Standard Registrars Limited G/F, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong			

#### Notes:

1. The information contained in the website does not form part of this prospectus.

2. Mr. Ira Stuart Outerbridge III, one of the secretaries of the Company, will resign as secretary immediately after the listing of the Shares on GEM and will thereafter be appointed as assistant secretary of the Company.

# **CORPORATE INFORMATION**

#### **Principal bankers**

The Development Bank of Singapore Ltd. Hong Kong Branch 16th Floor Man Yee Building 68 Des Voeux Road Central Hong Kong

Standard Chartered Bank Central Branch Shop 16, Ground and Lower Floors New World Tower 16–18 Queen's Road Central Hong Kong

Hang Seng Bank Kowloon Main Branch 618 Nathan Road Mongkok, Kowloon Hong Kong

Shenzhen Commercial Bank Floor A Yuhaimen Guangcha Nanyou Da Dao Nanshan Shenzhen The PRC

Bank of China Daxin Building Nanxin Road Nanshan District Shenzhen The PRC The information presented in this section, including all research data, statistics, presented herein and identified as having been extracted from publicly available documents provided by persons other than the Company, has not been prepared or independently verified by the Company, the Sponsor or any of their respective advisers or affiliates in connection with the Placing and therefore should not be unduly relied upon. The Company, the Sponsor or any of their respective advisers or affiliates makes no representation to the accuracy of this information.

#### THE DIGITAL CONTENT INDUSTRY

The Group is addressing the two main trends of the digital content industry: (1) CG creation and production (including development of its own intellectual property), and (2) digital content (including entertainment and education content) distribution and exhibitions, as well as imaging applications via digital cinemas and high definition video compression, encryption and derivative technologies.

#### CG creation and production

#### General description

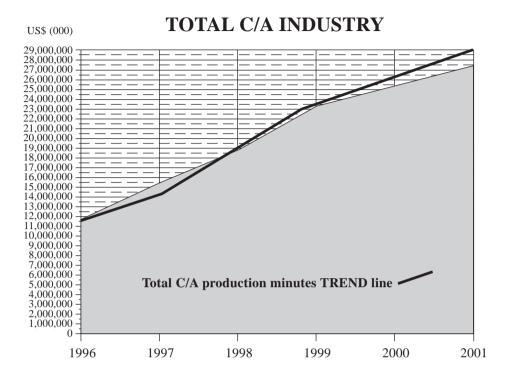
The Directors broadly categorize CG production into the following four sub-segments:

- Full length 3D CG film production: Some recent international CG film releases are Toy Story, Toy Story 2, Antz, Dinosaur, Final Fantasy: The Spirits Within and Monsters, Inc. The Directors consider that, among the four sub-segments, this is the most technically challenging and resource demanding segment which is dominated by a few, mainly US based production studios.
- Special effects for live action films: It is increasingly more popular to incorporate CG special effects for a major portion of a live action film instead of a few minutes or seconds of CG. Films such as *Stuart Little, the Patriot, Men in Black, the Titanic, and Harry Potter, have all incorporated CG in the movies.*
- *Long-format production*: These productions are mainly CG television series of about 10 hours in total length with individual episodes ranging from 15 to 45 minutes. In recent years, some newly established and traditional animation production studios in Hong Kong, South Korea and India have entered into this market segment.
- *Short-format production*: These productions include commercials, graphics for computer games, post-production, special effects and real life experience simulations such as architectural space walk through.

#### Computer animation market

In the past decade, CG animation has evolved from a complementary production technique to a mainstream, stand-alone production medium for film making, television series and commercials production. The worldwide demand for computer generated CG content has been increasing due mainly to the increasing consumer and viewer receptiveness of computer animation, improving computer technology that improves quality, reduces cost and expands applications. According to the Roncarelli Report 2001, which so far as the Directors are aware of, is the only annual market report and forecast for the computer animation segment of the global CG industry (which is also stated in the Roncarelli Report 2001), the actual computer animation ("C/A") industry dollar value were approximately US\$23,987 million, US\$25,460 million and US\$26,800

million for the three years ended 31st December, 2001 respectively, representing a compound annual growth rate of approximately 7.1%. The following graph illustrates the total computer animation industry dollar value and the total computer animation minutes trend line from 1995 to 2001.



Source: Roncarelli Report 2001

The total computer animation minutes trend line as shown in the graph above is used to indicate the growth rate trend of computer animation production on a minutes produced basis and is not an actual numerical accounting of the total minutes of computer animation produced. As indicated by the minutes trend line in the graph above, the rate of increase in the minutes of computer animation produced during 2001 has exceeded the rate of increase in the dollar value of the amount of computer animation production, illustrating that the cost per minute is decreasing. Such decrease in the cost per minute is believed to be a result of lower production costs from newer, faster, more capable systems, a more competitive industry, and an increase in the relative amount of low-cost production outside the US.

### Computer animation industry geographic distribution

According to the Roncarelli Report 2001, the North/South America accounts for the largest share of the global computer animation industry. The table below shows the computer animation industry's overall geographic distribution between 1999 and 2001.

	1999	2000	2001
North/South America	46.9%	48.8%	45.2%
Asia/Pacific	28.0%	29.2%	31.7%
United Kingdom/Europe	25.1%	22.0%	23.1%
Total	100.0%	100.0%	100.0%

Source: Roncarelli Report 2001

As illustrated from the table above, the Asia/Pacific region has increased its share of the computer animation market since 1999. According to the Roncarelli Report 2001, the long-term trend for the market share of the North/South America region being replaced by the Asia Pacific region will continue for several years, as the general pressure to reduce production budgets increases, the lower costs offered by offshore producers outside the US, in particular Asian producers, become increasingly attractive to North American and European film and television producers and other computer animation buyers. Also, as offshore producers are becoming more experienced and proficient in computer animation work, many offshore producers are trying to partner with established North American producers as a means of garnering some production work while learning from the North American production process. The Roncarelli Report 2001 expects this trend to continue for the foreseeable future as production budgets get tighter and communications capabilities increase, making the use of offshore production both more financially appealing and easier to execute. This will result in the Asia Pacific region gaining share to the detriment of the North/South America region, and particularly the United Kingdom/Europe region. It is expected that by 2004, the Asia Pacific regions will account for about one-third of the total global computer animation production dollar volume.

The Roncarelli Report 2001 estimates that there are over 7,500 computer animation facilities throughout the world. These computer animation facilities are diversified in terms of their sizes, make-ups and creative and business directions and operate in vastly different environments, responding to a variety of cultural and creative stimuli. In 2000, the entertainment uses of computer animation production account for 76.9% of production volume and the remaining 23.1% represents corporate and industrial uses of the technology. In the Roncarelli Report 2001, 63.9% of computer animation production facilities produce less than US\$1 million while less than 1% of the total number of production facilities produces more than US\$15 million worth of computer animation production. While approximately half of all computer animation facilities are located in North America, this continent's share of the total computer animation production is decreasing as the economic advantages offered by lower cost offshore production facilities prove increasingly attractive to budget strapped film makers and other buyers of computer animation production. However, the Directors are not aware of the public release of any full length CG film produced by the PRC or Hong Kong production house yet.

#### Production volume forecasts

The Roncarelli Report 2001 has forecasted that the computer animation market could grow to about US\$36 billion by 2004. The table below sets out the actual computer animation production volume for 2000 and the projected computer animation production volume for the years 2001 to 2004.

Year	Computer animation production volume US\$' million	Percentage increase as compared to the previous year
2000 (actual)	25,460	6.1%
2001 (projected)	26,835	5.4%
2002 (projected)	29,035	8.2%
2003 (projected)	31,997	10.2%
2004 (projected)	35,964	12.4%

Source: Roncarelli Report 2001

As shown in the above table, it is expected that the dollar value of the computer animation production volume will continue to grow steadily for 2003 and 2004.

Sales of full length CG movies worldwide

Several full length CG movies have enjoyed global success in the box office since Pixar, Inc.'s *Toy Story* was released in 1995 as the first full-length animated feature film to be created entirely by artists using computer tools and technology. In Pixar, Inc.'s website (www.pixar.com), Pixar, Inc. has reported that *Toy Story*, *A Bug's Life, Toy Story* 2 and *Monsters, Inc.* have earned more than US\$1.7 billion at the worldwide box office to date.

According to information from the website of Internet Movie Database Inc. (www.imdb.com), there are seven full length CG movies that are among the top 100 grossing movies of all time at the worldwide box office. The table below shows the ranking, the CG movies and the total box office of the seven full length CG movies among the top 100 grossing movies of all time.

Rank	Title (Year released)	Total Box Office Worldwide US\$' million
23	Monsters, Inc. (2001)	528.9
29	Toy Story 2 (1999)	485.7
34	Shrek (2001)	455.1
55	Ice Age (2002)	378.3
67	Toy Story (1995)	358.1
68	A Bug's Life (1998)	357.9
79	Dinosaur (2000)	347.8

Source: www.imdb.com (as at 1st April, 2003)

#### Cost of full length CG film production

The Directors consider that full length CG film production is one of the most technically challenging and resource demanding segments in CG production. The Directors estimate that the cost of making a full CG movie in the US in the recent years might range from US\$50 million to US\$150 million and up. Because of the demand in capital, there are few major production houses engaging in full length CG film production. The table below shows the estimated cost of some full length CG films.

	Estimated
Title (Year released)	production cost
	US\$' million
Final Fantasy: The Spirits Within (2001)	140
Monsters, Inc (2001)	115
Toy Story 2 (1999)	90
Shrek (2001)	60
A Bug's Life (1998)	45

Source: www.boxofficereport.com and filmforce.ign.com

#### Special effects for live action films

It is increasingly popular to incorporate CG special effects for a major portion of a live action film. According to Internet Movie Database Inc. (www.imdb.com), all of the top five global box office for movies released in 2002, namely *Harry Potter and the Chamber of Secrets, Spider Man, Lord of the Rings: The Two Towers, Star Wars: Episode II — Attack of the Clones* and *Men in Black II*, featured digital effects prominently and they have box office of more than US\$3.4 billion to date.

The use of digital special effects in film production is also getting more popular for non-US produced films, especially in Hong Kong. *StormRiders* (風雲), *Shaolin Soccer* (少林足球), *Legend of Zu* (蜀山傳) and *Master Q 2001* (老夫子) have also employed digital visual effects extensively.

#### Digital content distribution and exhibitions

#### Digital cinema

The current form of cinema as we are accustomed to, is based on 19th century technology with subsequent enhancement such as added audio and visual systems and a wider screen. It has so far withstood the advances in electronic equipment and digitalization of signal transmission. However in recent years, there is a trend that the film industry has embarked on replacing the current form of cinema with digital cinemas.

Digital cinema is not simply the replacement of analog cinema projectors, using strips of film as their image source, with digital projectors that use digital signals of zeroes and ones. Digital cinema is the production, delivery and projection of full-length motion pictures, trailers, advertisements and other audio/visual "cinema-quality" programs to theatres using digital technology. The digital cinema system uses a "store-and-forward" concept to distribute motion pictures, which haven been digitized, compressed, encrypted and delivered to theatres using either physical media distributions (such as DVD-ROMS) or through electronic transmission methods (such as satellite).

#### Advantages of digital cinema

The move to digital cinema is expected to benefit distributors, exhibitors, the creative community and the movie audiences. According to BDC, the global distribution cost of the movie industry is more than US\$2 billion a year, and most analysts believe 75% of this cost could be saved by shifting to digital delivery. Also, the digital delivery of files can provide a variety of alternative content for display by the theatre owner. Alternative contents, such as Broadway plays, sporting events, rock concerts, corporate training or distance learning, provide the theatre owner with additional opportunities to generate revenue. Also, with digital cinema, the presentation of the first showing is the same as all subsequent showing since digital films do not "wear out" which ensure that movie audiences will have a pristine digital experience at every showing and enjoy enhanced sound and image quality.

Nowadays, digital cinemas are already in operation. According to the reports by Screen Digest, there are over 400 public venues/screens around the world that rely on electronic projection to deliver digitalized films and other contents. The majority of digital cinemas are in France and the US.

The true evolution of digital cinema occurred in the US with the backing of the major Hollywood's studios to release major titles in theatres equipped with TI's DLP Cinema<sup>TM</sup> projector. On 1st June, 1999, the first commercial exhibition of digital electronic cinema took place in six venues across the US featuring *Star Wars: Episode 1 — The Phantom Menace*. Projectors based on the technology from TI's DLP chips were used for month long run at most venues, while a prototype Hughes-JVC video projector with Image Light Array (ILA) was successfully used for screening of both *The Phantom Menace* and *An Ideal Husband* at selected locations. In 1999, Disney equipped 12 US theatres with DLP Projectors for digital presentations of such films as *Toy Story 2, Bicentennial Man* and *Mission to Mars*. More digital milestones soon followed: Digital Cinema was delivered for the first time over the Internet in June 2000 when the animated film *Titan AE* was transported from a studio lot in Hollywood to the SuperComm trade show in Atlanta. In March 2001, the first practical demonstration of a film being delivered via satellite and projected digitally took place when BDC transmitted *Spy Kids* at the annual ShoWest exhibition convention. In July 2001, *Jurassic Park III* was presented in digital cinemas at California's Universal Studios with THX Digital Services compressing and burning the entire film with multi-channel audio onto 13 DVD-Rs and loading them onto servers at each theatre.

BDC is currently deploying equipment in cinemas across the US and the United Kingdom. In May 2002, BDC commercially deployed satellite movie distribution system to screens in the US and the United Kingdom. BDC has now deployed 29 digital cinemas in both the US and the United Kingdom. In less than five months, BDC, based in El Segundo, California, has surpassed 10,000 screenings, and continues to add approximately 100 screenings per day in markets across the US and in London. Among the seven feature films, from five studios, transmitted by BDC are: *Star Wars: Episode II — Attack of the Clones*, Fox/Lucas film; *Spy Kids II*, Miramax; *Signs* and *Spirited Away*, Buena Vista Pictures Distribution; and *Banger Sisters*, Fox. BDC allows the secure delivery of a movie file to theaters around the world via satellite and physical media technologies. BDC is leveraging many of its system integration, secure data transfer networks and associated expertise into emerging government and private sector market opportunities. The 10,000 digital screenings are a strong indication that studios, moviegoers and theaters are embracing digital cinema.

BDC also demonstrated its live streaming capability in October 2002, by bringing highlights of concerts, sporting events, and a Broadway show to theaters in central Florida at over 50 megabits per second. These events were shown using cinema-grade digital equipment, and originated in Los Angeles via satellite transmission.

Hollywood studios have also increased the number of movies released digitally in TI's DLP Cinema<sup>™</sup> equipped theatres. In November 2002, four of these top 10 US box-office titles were released in both digital and film formats.

#### Digital cinema geographic distribution

According to a report from Boxoffice Online (www.boxoff.com), there were 116 digital screens in operation as of June 2002, up from just 12 in 1999. The table below shows the geographical distribution of digital cinema as of June 2002.

Location	Number of digital cinemas
North America	70
Asia	25
Europe	18
Latin America	3
Total	116

### PRC's digital cinema

With PRC entry into the WTO, the cinema industry is one of the areas poised to experience dramatic growth. In a report from Christie Digital Systems, Inc. (www.christiedigital.com), the official figure of approximately US\$120 million in revenues is expected to increase 15 times in the next ten years. Modern, multi-screen cinema complexes are the most recent trend in Chinese shopping malls, with a government-backed focus on utilizing cutting-edge digital technology.

Shanghai Paradise was the site of the first digital cinema in the PRC installed in early 2002. According to a report provided by Christie Digital Systems, Inc., since the installation of the first digital cinema in the PRC, a total of 35 digital cinemas have opened throughout the PRC.

A report provided by Christie Digital Systems, Inc., one of the leading manufacturers of high performance projection and integrated display solutions equipment, states that the PRC has demonstrated a significant milestone for digital cinema especially when the total number of digital cinema theatres around the world at present is factored in. With the number of digital cinemas expected to increase to as many as 100 by the end of 2003, the landscape for digital cinemas in the PRC looks bright.

### CG training industry in the PRC

In order to provide CG training courses in the PRC, a company is required to apply for Permit for Organization of Courses\*《辦班許可證》from the relevant municipal education ministry and/or other relevant authorities before provision of such courses. Each Permit for Organization of Courses\* 《辦班許可證》 is valid until the completion of such courses and every courses thereafter must apply for a new Permit for Organization of Courses\* 《辦班許可證》. Such Permit for Organization of Courses\* 《辦班許可證》 are subject to re-assessment by the relevant issuing authorities in accordance with the then prevailing legal and regulatory requirements.

The Group has, in accordance with the legal opinion from its PRC legal adviser, obtained all the necessary Permit for Organization of Courses\*《辦班許可證》 in respect of all the CG training courses which it has conducted and is in the process of conducting in the PRC. According to the Group's PRC legal adviser, these Permit for Organization of Courses\*《辦班許可證》 constitute all the required permits which the Group needs for its provision of CG training course in the PRC.

#### Merchandising market

The revenues generated from a movie (whether or not a traditional featured movie or a CG animated movie) consists of several streams — pre-sale proceeds, box office receipts, the proceeds of sales of products derived from the movie such as VCDs and DVDs of the movie, license fees for games, television series and/or toys based on the story and/or characters of the movie and etc. For a popular international movie, these revenues can be substantial.

#### Gaming market

#### Console game market

The console game market is currently dominated by Sony Corp., Microsoft Corp. and Nintendo Co. Ltd. According to data released by market research firm NPD Group, Inc., the total dollar sales of video game hardware, software, and accessories reached a record level of US\$10.3 billion in 2002. The figure represents a 10% increase over the 2001 figure of US\$9.4 billion. For 2002, software sales rose 21% on a dollar basis and 15% on a unit basis.

In a report from In-Stat/MDR (www.instat.com), a division of one of the world's largest business-tobusiness information providers, the total video game revenue surpassed movie box office receipts in the US again in 2001 for the second consecutive year.

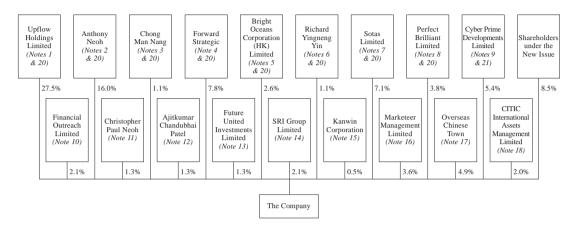
According to a report from GameMarketWatch (www.gamemarketwatch.com), a website which is specialized in providing information on game market worldwide, the console market leader, Sony Corp., said that total worldwide production of its gaming unit, PlayStation 2, passed the 50 million mark in less than three years, whereas it took four years for that product predecessor, the original PlayStation, to reach the same point.

#### Online game

A research report from DFC Intelligence, a strategic market research and consulting firm focused on interactive entertainment and emerging video games, streaming media, and interactive television markets, published in 2002 forecasted that 114 million people worldwide are expected to be playing online games by the year 2006. The research report also reported that online games would garner significant usage over the next few years and top online games now are able to generate revenue in excess of US\$100 million each.

### SHAREHOLDING STRUCTURE

Immediately following the listing of the Shares on GEM and without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme and/or the Sotas Option, the Shareholders and their respective approximate shareholding in the Company are as follows:



#### Notes:

1. Upflow Holdings Limited is wholly and beneficially owned by Raymond Neoh, who is an executive Director. Accordingly, Upflow Holdings Limited and Raymond Neoh are Initial Management Shareholders. Raymond Neoh is the younger brother of Anthony Neoh and Christopher Paul Neoh.

On 31st March, 2000, GDC effected three share swaps with Raymond Neoh and Upflow Holdings Limited pursuant to which GDC allotted and issued new shares of GDC to Upflow Holdings Limited in consideration of GDC's acquisitions of certain equity interests in GDC Entertainment Limited, GDC E-Com Limited and DCDC either wholly or partly owned by Raymond Neoh or Upflow Holdings Limited at an aggregate consideration of US\$7,710,000 (equivalent to HK\$60,138,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Upflow Holdings Limited has become a Shareholder. Details of the reorganization are set out in note 19 below.

2. Anthony Neoh is a non-executive Director and is therefore an Initial Management Shareholder. Anthony Neoh is the elder brother of Raymond Neoh and Christopher Paul Neoh.

On 31st March, 2000, GDC effected two share swaps with Anthony Neoh pursuant to which GDC allotted and issued new shares of GDC to Anthony Neoh in consideration of GDC's acquisitions of certain equity interests in GDC E-Com Limited and Forward Strategic from Anthony Neoh at an aggregate consideration of US\$4,500,000 (equivalent to HK\$35,100,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Anthony Neoh has become a Shareholder. Details of the reorganization are set out in note 19 below.

3. Chong Man Nang is a member of the senior management of the Company and is therefore an Initial Management Shareholder.

300,000 new shares of GDC were allotted and issued to Chong Man Nang at nil consideration as a sign-up bonus under the engagement agreement entered into between GDC and Chong Man Nang dated 17th June, 2000.

Pursuant to a reorganization of the Company effected in November and December 2002, Chong Man Nang has become a Shareholder. Details of the reorganization are set out in note 19 below.

4. Forward Strategic is a wholly-owned subsidiary of GDC, which is owned at to approximately 32.4% by Upflow Holdings Limited, which is in turn wholly owned by Raymond Neoh. For further details of the shareholding structure of GDC, please refer to the sub-section headed "Competing interest" in the section headed "Business" in this prospectus. On 8th January, 2001, GDC and Sudden Win Holdings Limited entered into an agreement pursuant to which GDC agreed to sell and Sudden Win Holdings Limited agreed to purchase, 31.605% equity interest in DCDC held in the name of Forward Strategic together with the benefit and obligations of an option to purchase from an another shareholder of DCDC 5% of the entire issued shares of another company. In consideration for the sale of the 31.605% equity interest in DCDC and the assignment of the said option, Sudden Win Holdings Limited shall surrender 3,840,000 shares of GDC (representing approximately 15.8% of the then issued share capital of GDC). Immediately after completion of the agreement, Forward Strategic was interested in 3,840,000 shares of GDC (representing approximately 15.8% of the then issued share capital of GDC) surrendered by Sudden Win Holdings Limited and 21.395% interest in DCDC.

On 24th July, 2001, Forward Strategic transferred 200,000 shares of GDC (representing approximately 0.8% of the then issued share capital of GDC) to Future United Investments Limited, details of which are set out in note 13 below, at a cash consideration of US\$1,000,000.

On 2nd November, 2001, Forward Strategic transferred (i) 170,500 shares of GDC (representing approximately 0.7% of the then issued share capital of GDC) to Future United Investments Limited, details of which are set out in note 13 below, at a cash consideration of US\$250,000; and (ii) 341,000 shares of GDC (representing approximately 1.4% of the then issued share capital of GDC) to Bright Oceans Corporation (HK) Limited, details of which are set out in note 5 below, at a cash consideration of US\$500,000.

Pursuant to a reorganization of the Company effected in November and December 2002, Forward Strategic became a Shareholder. Details of the reorganization are set out in note 19 below.

On 20th March, 2003, the shareholders of Forward Strategic, have by written resolution, adopted a share option scheme ("Scheme") also dated 20th March, 2003, wherein its board is entitled to grant options ("Options") to grantees such that they can purchase Shares from Forward Strategic pursuant to the terms of the Scheme. The grant of such Options is to remunerate the grantees for their contributions made to the Group. Salient terms are as follows:

- (a) the scheme period during which options can be granted by the board of Forward Strategic under the Scheme is from 20th March, 2003 to the Latest Practicable Date. As such, no further Options can be offered or granted after the Latest Practicable Date;
- (b) the exercise price is the amount of HK\$1.00 which is payable to Forward Strategic upon the exercise of any Options (whether in whole or in part);
- (c) the total number of Shares which can be purchased by the grantees from Forward Strategic upon their exercise of their Options is 3,697,331 Shares, which are existing and issued Shares which represented the entire shareholding interest held by Forward Strategic in the Company as at 20th March, 2003, which also represented approximately 9.2% of the issued share capital of the Company as at the Latest Practicable Date. The aforesaid 3,697,331 Shares shall represent 61,015,197 Shares and 7.8% of Shares (held immediately after the new Issue and the Capitalization Issue before the exercise of the Sotas Option);
- (d) the grantees eligible for the Options include any full-time/part-time employees, directors and consultants, distributors of the Group;
- (e) subject to the option period of each Option being not more than ten years from the date of grant of the relevant Option, the board of Forward Strategic may in the letters containing the offers of Options impose restrictions on the exercise of the Options so granted;
- (f) as at 20th March, 2003, Options to purchase from Forward Strategic an aggregate 61,015,197 Shares (on the basis that the Capitalization Issue had taken place) have been granted by Forward Strategic;
- (g) As at the Latest Practicable Date, all the grantees to the Scheme (as shall be disclosed hereunder), but save for David Kirschner, with the aggregate number of Options of 59,626,594 Shares, have accepted the offer of their respective Options;

(h) the Scheme provides that in the event of alteration in the capital structure of the Company prior to the Listing Date or in the event of any alteration in the capital structure by way of consolidation, sub-division or reduction of the share capital of the Company after the Listing Date, whilst any option remains exercisable, except for the issue of Shares as consideration in a transaction, corresponding alterations shall be made to give the grantees the same proportion of equity capital in the Company as to which they were personally entitled, and as the Capitalization Issue was approved by the Shareholders' resolutions passed at the Company's special general meeting held on 18th July, 2003, the Options granted by Forward Strategic as at the Latest Practicable Date were correspondingly altered/adjusted to become Options to purchase an aggregate of 61,015,197 Shares and which options were granted to the following persons in such number as set opposite their names below:

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Directors				
Anthony Neoh	Chairman and a non- executive Director	32,201,692	the date of acceptance of the relevant options to the Latest Practicable Date and from 1 year after the Listing Date to 19th March, 2013	
Raymond Neoh	Chief executive officer and an executive Director	4,818,450	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.62%
Richard Yingneng Yin	Non-executive Director	5,387,778	the date of acceptance of the relevant options to the Latest Practicable Date and from 1 year after the Listing Date to 19th March, 2013	0.69%
Senior management of the Group				
Chong Man Nang	Chief technology officer	8,331,616	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	1.07%
Mak Yau Kee, Adrian	Chief financial officer	2,221,764	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.28%
Mak Lai Yu, Amelia	Chief administration officer/legal adviser	2,221,764	the later of (i) 3 years from her employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.28%

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Benjamin Ng	General manager of GDC Technology Pte. Limited	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Consultant of the Company				
David Kirschner	Executive producer of <i>Thru the</i> <i>Moebius Strip</i> and a consultant of the Company	1,388,603	1 year from the Listing Date to 19th March, 2013	0.18%
Employee of the Group				
Ujval Lodha	Senior research and development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Parimal Aswani	Senior research and development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Ong Kiem Ching	Senior development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Thanakorn Kitticharernkul	Research and development engineer	555,441	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.07%
Pranay Kumar	Research and development engineer	555,441	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.07%
		61,015,197		7.82%

*Note:* These figures are calculated on the basis of 780,000,000 Shares in issue immediately after the New Issue and Capitalization Issue and take no account of the issue of Shares pursuant to any Options which may be granted under the Share Option Scheme and/or the Sotas Option.

Since adoption of the Scheme and immediately before the Latest Practicable Date, no Options granted under the Scheme were exercised. Exercise of any of these outstanding Options will not have a dilution/consolidation effect on the shareholdings of the Shareholders at the time of such exercise of Options as well as on the earnings per Share for the relevant financial year of the Group given that the Shares subject to the Options were existing Shares outstanding and held by Forward Strategic, as at the Latest Practicable Date.

5. Bright Oceans Corporation (HK) Limited is ultimately and beneficially owned as to 50% by David Deng Wei, as to 40% by Huang Yi and as to 10% by Zhang Dong Sheng. Huang Yi and Zhang Dong Sheng have no involvement in the management of the Company and save for their indirect interests in the Company, are independent third parties not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. David Deng Wei is a non-executive Director. Accordingly, Bright Oceans Corporation (HK) Limited, David Deng Wei, Huang Yi and Zhang Dong Sheng are Initial Management Shareholders.

In April 2001, Bright Oceans Corporation (HK) Limited entered into an agreement with GDC pursuant to which (i) Bright Oceans Corporation (HK) Limited agreed to subscribe for 400,000 new shares of GDC at a cash consideration of US\$2,000,000 (equivalent to HK\$15,600,000); and (ii) GDC agreed to grant an option to Bright Oceans Corporation (HK) Limited to acquire 200,000 shares of GDC at a price of US\$2.5 per share of GDC during the period of one year commencing from 25th November, 2001.

In August 2002, the board of directors of GDC decided that the number of shares of GDC taken up by Bright Oceans Corporation (HK) Limited and the number of shares of GDC subject to the option should be adjusted based on a valuation of GDC at US\$100 million. As such, the board of directors of GDC decided that 494,000 shares of GDC should have been issued to Bright Oceans Corporation (HK) Limited and the number of shares of GDC subject to the option should be increased to 247,000. The option was exercised in full in the same month. The additional 94,000 shares of GDC and the 247,000 shares of GDC subject to the option were all transferred from the treasury shares of GDC held by Forward Strategic, a wholly-owned subsidiary of GDC on 2nd November, 2001. Therefore, the subscription price was US\$4.05 per share and the valuation of GDC was US\$100 million.

Pursuant to a reorganization of the Company effected in November and December 2002, Bright Oceans Corporation (HK) Limited has become a Shareholder. Details of the reorganization are set out in note 19 below.

6. Richard Yingneng Yin is appointed as a non-executive Director and therefore an Initial Management Shareholder.

On 31st March, 2000, GDC effected a share swap with Richard Yingneng Yin pursuant to which GDC allotted and issued new shares of GDC to Richard Yingneng Yin in consideration of GDC's acquisition from Richard Yingneng Yin of certain equity interest in GDC E-Com Limited at a consideration of US\$300,000 (equivalent to HK\$2,340,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Richard Yingneng Yin has become a Shareholder. Details of the reorganization are set out in note 19 below.

7. Sotas Limited is an investment holding company and a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly-owned by Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. None of the discretionary objects of the family trust are Directors. Sotas Limited had a board representation (Mr. Chang Ka Ki George) in GDC between August 2000 and November 2002. Sotas Limited does not have any management function in the Group and has no intention to be involved in the management of the Group in the near future. Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited have agreed that they shall be subject to the same restriction on disposal of shares which is imposed by the GEM Listing Rules on Initial Management Shareholders.

Sotas Limited and GDC entered into a subscription agreement dated 2nd April, 2000 pursuant to which Sotas Limited agreed to subscribe for 3,000,000 new shares of GDC for a cash consideration of US\$5,000,000 (equivalent to HK\$39,000,000). The subscription was completed in August 2000.

On 19th November, 2002, Sotas Limited disposed of 1,000,000 shares in GDC for a cash consideration of US\$1,670,000 (equivalent to HK\$13,026,000) to Marketeer Management Limited.

Pursuant to a reorganization of the Company effected in November and December 2002, Sotas Limited has become a Shareholder. Details of the reorganization are set out in note 19 below.

Pursuant to a deed of novation dated 28th November, 2002 made between GDC Holdings Limited (a wholly-owned subsidiary of the Company), GDC and Sotas Limited, GDC transferred the loans together with outstanding interest which it owed to Sotas Limited, in an aggregate amount of HK\$7,859,616 to GDC Holdings Limited, by way of novation. As the deed further provided for GDC and GDC Holdings Limited to undertake to, prior to the Listing Date, issue to Sotas Limited and/or any of its designates, share options to subscribe for new Shares in replacement of certain options previously issued by GDC to Sotas Limited, the Company has on 5th June, 2003 granted to Sotas Limited the Sotas Option.

The Sotas Option entitles the holder thereof to purchase 504,870 Shares (representing 8,331,615 new Shares and 1.1% of the total issued Shares immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option), with an option period of 36 months commencing from the Listing Date and is exercisable upon 10 days prior written notice.

The exercise of the Sotas Option is subject to the GEM Listing Committee granting listing of and permission to deal in the Shares which may fall to be issued upon the exercise of the Sotas Option.

The Shares issued under the Sotas Option are subject to moratorium on transfer for 12 months from the Listing Date. Verrall Limited will also undertake to the Company and the Stock Exchange that, during the period of 12 months from the Listing Date, it will not change the discretionary objects of the trust upon which it currently holds the shares in Morningside CyberVentures Holdings Limited. Verrall Limited has further undertaken to the Company, the Stock Exchange, the Sponsor and the Lead Manager that it will not dispose of (or enter into any agreements to dispose of) any of its shares in Morningside CyberVentures Holdings Limited during the period of 12 months from the Listing Date. The undertakings given by Verrall Limited as trustee of the trust will be binding upon its successors as trustees of the trust. The cost per Share under the Sotas Option is approximately HK\$0.56 representing approximately 44% discount to the Issue Price.

8. Perfect Brilliant Limited is a company wholly and beneficially owned by William Ka Chung Lam. William Ka Chung Lam was a director of GDC between January 2000 and January 2002. Further, Perfect Brilliant Limited and William Ka Chung Lam do not have nor intend to have any management role in any member of the Group. As William Ka Chung Lam was a director of GDC, Perfect Brilliant Limited and William Ka Chung Lam are regarded as Initial Management Shareholders.

On 31st March, 2000, GDC effected two share swaps with William Ka Chung Lam pursuant to which GDC allotted and issued 1,800,000 new shares of GDC to William Ka Chung Lam in consideration of GDC's acquisitions from William Ka Chung Lam of certain equity interests in GDC Entertainment Limited and Forward Strategic at an aggregate consideration of US\$1,800,000 (equivalent to HK\$14,040,000).

On 21st August, 2002, William Ka Chung Lam transferred 1,300,000 shares in GDC to Perfect Brilliant Limited at nil consideration.

On 25th October, 2002, Perfect Brilliant Limited disposed of (i) 100,000 shares in GDC to SRI Group Limited for a cash consideration of HK\$833,330; and (ii) 150,000 shares in GDC to Kanwin Corporation for a cash consideration of HK\$1,250,000. On the same date, William Ka Chung Lam disposed of 500,000 shares in GDC to SRI Group Limited for a cash consideration of HK\$4,166,670.

Pursuant to a reorganization of the Company effected in November and December 2002, Perfect Brilliant Limited has become a Shareholder. Details of the reorganization are set out in note 19 below. Perfect Brilliant Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. William Ka Chung Lam became acquainted with the Group through his acquaintance with the family of Anthony Neoh and Raymond Neoh.

9. Cyber Prime Developments Limited is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway.

On 31st March, 2000, GDC effected a share swap with Kingsway Technology Investments Limited pursuant to which GDC allotted and issued new shares of GDC to Kingsway Technology Investments Limited in consideration of GDC's acquisition from Kingsway Technology Investments Limited for certain equity interest in GDC Entertainment Limited at a consideration of US\$1,500,000 (equivalent to HK\$11,700,000). Kingsway Technology Investments Limited is a wholly-owned subsidiary of Kingsway International Holdings Limited, the shares of which are listed on The Toronto Stock Exchange Inc.. Kingsway International Holdings Limited is the holding company of SW Kingsway.

On 21st August, 2002, Kingsway Technology Investments Limited transferred its then entire equity interest in GDC to Cyber Prime Developments Limited for a consideration of HK\$11,700.

Pursuant to a reorganization of the Company effected in November and December 2002, Cyber Prime Developments Limited has become a Shareholder. Details of the reorganization are set out in note 19 below.

Kingsway Capital, a wholly-owned subsidiary of SW Kingsway, is one of the joint financial advisers to the Company in respect of the New Issue.

10. Financial Outreach Limited is an investment holding company and is wholly and beneficially owned by Daniel Gia Tien Lam, who is a private investor. Save that Daniel Gia Tien Lam is the younger brother of William Ka Chung Lam (who is the beneficial owner of Perfect Brilliant Limited), Daniel Gia Tien Lam is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules and his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties. Further, Daniel Gia Tien Lam does not have nor intend to have any management role in any member of the Group. Financial Outreach Limited has provided funding proof that its interest in GDC was settled by its own source of funding.

On 31st March, 2000, GDC effected five share swaps with Financial Outreach Limited pursuant to which GDC allotted and issued new shares of GDC to Financial Outreach Limited in consideration of GDC's acquisitions from Financial Outreach Limited of the entire equity interests in GDC Technology Limited and GDC China Limited and certain equity interests in GDC E-Com Limited, GDC Consultants Limited and GDC Vision Scape Limited for an aggregate consideration of US\$600,000 (equivalent to HK\$4,680,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Financial Outreach Limited has become a Shareholder. Details of the reorganization are set out in note 19 below. Financial Outreach Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Daniel Gia Tien Lam became acquainted with the Group through referral from his brother William Ka Chung Lam.

11. Save that Christopher Paul Neoh is the younger brother of Anthony Neoh and the elder brother of Raymond Neoh, Christopher Paul Neoh is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules and his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties. Further, Christopher Paul Neoh does not have nor intend to have any management role in any member of the Group. Christopher Paul Neoh has provided funding proof that his interest in GDC was settled by his personal source of funding.

On 31st March, 2000, GDC effected a share swap with Christopher Paul Neoh pursuant to which GDC allotted and issued new shares of GDC to Christopher Paul Neoh in consideration of GDC's acquisition from Christopher Paul Neoh of certain equity interest in Forward Strategic at a consideration of US\$375,000 (equivalent to HK\$2,925,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Christopher Paul Neoh has become a Shareholder. Details of the reorganization are set out in note 19 below. Christopher Paul Neoh invested in the Company because he was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry.

12. Ajitkumar Chandubhai Patel is a private investor and has provided a statutory declaration confirming that (i) he is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) he

is the sole beneficial owner of the Shares held indirectly by him. Ajitkumar Chandubhai Patel does not have nor intend to have any management role in any member of the Group. Ajitkumar Chandubhai Patel has provided funding proof that his interest in GDC was settled by his personal source of funding.

On 31st March, 2000, GDC effected a share swap with Ajitkumar Chandubhai Patel pursuant to which GDC allotted and issued new shares of GDC to Ajitkumar Chandubhai Patel in consideration of GDC's acquisition from Ajitkumar Chandubhai Patel of certain equity interest in Forward Strategic at a consideration of US\$375,000 (equivalent to HK\$2,925,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Ajitkumar Chandubhai Patel has become a Shareholder. Details of the reorganization are set out in note 19 below. Ajitkumar Chandubhai Patel invested in the Company because he was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Ajitkumar Chandubhai Patel became acquainted with the Group through his acquaintance with Christopher Paul Neoh.

13. Future United Investments Limited is an investment holding company and is wholly and beneficially owned by Yeh Chiang Sheng, who is a private investor and has provided a statutory declaration confirming that (i) he is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) he is the sole beneficial owner of the Shares held indirectly by him. Further, Yeh Chiang Sheng does not have nor intend to have any management role in any member of the Group. Future United Investments Limited has provided funding proof that its interest in GDC was settled by its own source of funding.

In June 2001, Future United Investments Limited agreed to acquire 200,000 shares of GDC at a cash consideration of US\$1,000,000 (equivalent to HK\$7,800,000) and GDC agreed to grant an option to Future United Investments Limited to acquire 100,000 shares of GDC at a price of US\$2.5 per share of GDC. 200,000 shares of GDC were subsequently transferred from Forward Strategic to Future United Investments Limited July 2001.

In August 2002, the board of directors of GDC decided that the number of shares of GDC taken up by Future United Investments Limited and the number of shares of GDC subject to the option should be adjusted based on a valuation of GDC at US\$100 million. As such, the board of directors of GDC decided that 247,000 shares of GDC should have been issued to Future United Investments Limited and the number of shares of GDC subject to the option should be increased to 123,500. The option was exercised in full in September 2002. The additional 47,000 shares of GDC and the 123,500 shares of GDC subject to the option were all transferred from the treasury shares of GDC held by Forward Strategic on 2nd November, 2001. Therefore, the subscription price was US\$4.05 per share and the valuation of GDC was US\$100 million.

Pursuant to a reorganization of the Company effected in November and December 2002, Future United Investments Limited has become a Shareholder. Details of the reorganization are set out in note 19 below. Future United Investments Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Yeh Chiang Sheng became acquainted with the Group through his acquaintance with Anthony Neoh.

14. SRI Group Limited is an investment holding company, a wholly-owned subsidiary of Heng Fung Capital Company Limited, which is wholly owned by Heng Fung Holdings Limited, the shares of which are listed on the Main Board. The principal business activities of Heng Fung Holdings Limited are credit card operations, securities trading and investments, treasury investment, retailing of fashion apparel and accessories, property investment and medical health care. Heng Fung Holdings Limited is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules and its investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties. Further, Heng Fung Holdings Limited does not have nor intend to have any management role in any member of the Group.

On 25th October, 2002, SRI Group Limited acquired 500,000 shares and 100,000 shares in GDC from William Ka Chung Lam and Perfect Brilliant Limited, a company wholly and beneficially owned by William Ka Chung Lam, respectively, for an aggregate consideration of HK\$5,000,000.

Pursuant to a reorganization of the Company effected in November and December 2002, SRI Group Limited has become a Shareholder. Details of the reorganization are set out in note 19 below. SRI Group Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Heng Fung Holdings Limited became acquainted with the Group through referral from William Ka Chung Lam.

15. Kanwin Corporation is an investment holding company and ultimately and beneficially owned by Victor Yang. Victor Yang is a private investor and has provided a statutory declaration confirming that (i) he is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholder of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) his investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) he is the sole beneficial owner of the Shares held indirectly by him. Victor Yang does not have nor intend to have any management role in any member of the Group. Kanwin Corporation has provided funding proof that its interest in GDC was settled by its own source of funding.

On 25th October, 2002, Kanwin Corporation acquired 150,000 shares in GDC from Perfect Brilliant Limited for a cash consideration of HK\$1,250,000.

Pursuant to a reorganization of the Company effected in November and December 2002, Kanwin Corporation has become a Shareholder. Details of the reorganization are set out in note 19 below. Kanwin Corporation invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Victor Yang became acquainted with the Group through referral from William Ka Chung Lam.

16. Marketeer Management Limited is an investment holding company and ultimately and beneficially owned by Elizabeth Lee Ka Ying. Elizabeth Lee Ka Ying is a private investor and has provided a statutory declaration confirming that (i) she is independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules; (ii) her investment in the Group was not funded or backed, directly or indirectly, by all or any of the said parties; and (iii) she is the sole beneficial owner of the Shares held indirectly by her. Further, Elizabeth Lee Ka Ying does not have nor intend to have any management role in any member of the Group. Marketeer Management Limited has provided funding proof that its interest in GDC was settled by its own source of funding.

On 19th November, 2002, Marketeer Management Limited acquired 1,000,000 shares in GDC from Sotas Limited for a cash consideration of US\$1,670,000 (equivalent to HK\$13,026,000).

Pursuant to a reorganization of the Company effected in November and December 2002, Marketeer Management Limited has become a Shareholder. Details of the reorganization are set out in note 19 below. Marketeer Management Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry. Elizabeth Lee Ka Ying became acquainted with the Group through referral from Sotas Limited.

17. Overseas Chinese Town is a wholly owned subsidiary of Overseas Chinese Town Holding Company (華僑城集團公司). Overseas Chinese Town Holding Company is wholly owned by State Assets Regulatory Commission of PRC\* (中國國有資產監督管理委員會). Therefore, Overseas Chinese Town is a State-owned enterprise. Overseas Chinese Town was founded on 11th November, 2002. The principal business of Overseas Chinese Town is investment management and its principal business activities include businesses involved in paper packaging, household electronic appliances, hotel and tourism. Overseas Chinese Town is an independent third party not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. Overseas Chinese Town invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry and for strategic reasons. Overseas Chinese Town Holding Company was established on 11th November, 1995.

Overseas Chinese Town, the Company and Upflow Holdings Limited (as guarantor) entered into a share subscription agreement dated 10th June, 2003, pursuant to which Overseas Chinese Town agreed to subscribe for 2,302,681 Shares which shall immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option represent 38,000,000 Shares which is at least 4.87% of Shares at the aggregate subscription price of HK\$28,500,000. Overseas Chinese Town's aforesaid investment in the Company represents approximately 6.2% of its audited net asset value as at 31st December, 2002 of HK\$462 million and represents approximately 0.3% of the net asset value of Overseas Chinese Town Holding Company of approximately RMB10,000 million (approximately HK\$9,434 million). The

subscription was completed on 26th June, 2003. Under the relevant share subscription agreement, if the Company fails to have the Shares listed on GEM by 30th November, 2003, Overseas Chinese Town will be entitled to exercise a buyback option pursuant to which the Company will be obliged to repurchase the said 2,302,681 new Shares subscribed by Overseas Chinese Town at HK\$28,500,000 (plus interest based on London Interbank Offer Rate over the relevant period).

18. CITIC International Assets Management Limited is a wholly owned subsidiary of CITIC International Financial Holdings Limited. The shares of CITIC International Financial Holdings Limited are listed on the Main Board. CITIC International Financial Holdings Limited (formerly known as CITIC Ka Wah Bank Limited) was established on 17th December, 1924. The principal business activities of CITIC International Assets Management Limited are investment holding and assets management and its portfolio comprises non-performing loans, performing liquid assets and other assets. The principal business of CITIC International Financial Holdings Limited include the provision of general banking and related financial services. CITIC International Financial Holdings Limited and CITIC International Assets Management Limited are independent third parties not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. CITIC International Assets Management Limited invested in the Company because it was optimistic about the potential growth and future of the digital content industry and the positioning of the Company in this industry.

CITIC International Assets Management Limited and the Company entered into a share subscription agreement dated 12th June, 2003, pursuant to which CITIC International Assets Management Limited agreed to subscribe for 945,311 Shares which shall immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option represent 15,600,000 Shares which is at least 2.00% of Shares at the aggregate subscription price of HK\$11,700,000. The subscription was completed on 25th June, 2003. CITIC International Assets Management Limited currently manages a portfolio worth approximately HK\$1.2 billion and its investment in the Company represents approximately 1.0% of the portfolio it manages. Further, such investment represents approximately 0.17% of the net asset value of CITIC International Financial Holdings Limited as at 31st December, 2002 of approximately HK\$7,426 million).

19. In preparation for the New Issue, the Company has effected a reorganization pursuant to which, among other things, GDC Entertainment Limited, GDC China Limited and GDC Technology Limited have become wholly-owned subsidiaries of the Company and the then existing shareholders of GDC have become the Shareholders. The reorganization hinged on 2 different share swap arrangements, a capital reduction, a distribution in specie and another share swap arrangement, details of which are set out below:

#### Share Swap 1

On 28th November, 2002, GDC sold all its shares and inter-company debts in GDC Technology Limited, GDC Entertainment Limited and GDC China Limited to GDC Holdings Limited (a company incorporated in the BVI by GDC) ("Share Swap 1"). The consideration for the Share Swap 1 consisted of (i) GDC Holdings Limited's allotment and issuance of 521,418,075 of its shares of US\$0.01 each to GDC and (ii) GDC Holdings Limited's assumption of certain loans and a convertible loan which were owed by GDC to several lenders, by way of novation.

#### Share Swap 2

On 28th November, 2002, GDC sold its entire 100% shareholding in GDC Holdings Limited to GDC (BVI) Limited (another company incorporated in the BVI by GDC) ("Share Swap 2") in consideration of GDC (BVI) Limited's allotment and issuance of 521,418,075 of its shares of US\$0.01 each to GDC.

#### Capital reduction

On 28th November, 2002, to facilitate the distribution in specie by GDC of its entire shareholding in GDC (BVI) Limited described below, GDC reduced its share capital from US\$24,700,000 divided into 24,700,000 shares of US\$1.00 each to US\$100,000 divided into 100,000 shares of US\$1.00 each, by reducing and canceling its paid-up capital.

#### Distribution in specie

On 28th November, 2002, GDC distributed to its existing shareholders, its entire shareholding in GDC (BVI) Limited by way of distribution in specie pro rata. Immediately after the said distribution in specie, the shareholding of GDC (BVI) Limited was as follows:

Name of shareholders	Number of distributed shares	Approximate percentage of shareholding
Upflow Holdings Limited	162,758,436	31.21%
Anthony Neoh	94,995,196	18.22%
Chong Man Nang	6,333,013	1.21%
Forward Strategic	66,042,771	12.67%
Bright Oceans Corporation (HK) Limited	15,642,542	3.00%
Cyber Prime Developments Limited	31,665,065	6.07%
Sotas Limited	42,220,087	8.10%
Perfect Brilliant Limited	22,165,546	4.25%
Christopher Paul Neoh	7,916,266	1.52%
Richard Yingneng Yin	6,333,013	1.21%
Financial Outreach Limited	12,666,026	2.43%
Ajitkumar Chandubhai Patel	7,916,266	1.52%
Future United Investments Limited	7,821,271	1.50%
SRI Group Limited	12,666,026	2.43%
Kanwin Corporation	3,166,507	0.61%
Marketeer Management Limited	21,110,044	4.05%
Total	521,418,076*	100.00%

#### Share Swap 3

After GDC (BVI) Limited repurchased 19,664,005 shares of GDC (BVI) Limited from Forward Strategic at par for a consideration of US\$196,640.05 for subsequent cancellation on 31st December, 2002, the existing shareholders of GDC (BVI) Limited (as set out above), on 31st December, 2002 sold their entire 100% shareholding in GDC (BVI) Limited to the Company ("Share Swap 3") in return for the Company's allotment and issuance of an aggregate of 30,000,000 Shares (as per the following manner according to their then shareholding interests in GDC (BVI) Limited) and to credit as fully paid at par the 10,000,000 Shares issued nil-paid to Upflow Holdings Limited on 7th November, 2002:

Name of allottee	Number of consideration Shares	Approximate percentage of shareholding
Upflow Holdings Limited (Note)	12,975,156	32.44%
Anthony Neoh	7,573,048	18.94%
Chong Man Nang	504,870	1.26%
Forward Strategic	3,697,330	9.24%
Bright Oceans Corporation (HK) Limited	1,247,028	3.12%
Cyber Prime Developments Limited	2,524,350	6.31%
Sotas Limited	3,365,800	8.41%
Perfect Brilliant Limited	1,767,044	4.42%
Christopher Paul Neoh	631,088	1.58%
Richard Yingneng Yin	504,870	1.26%
Financial Outreach Limited	1,009,740	2.52%
Ajitkumar Chandubhai Patel	631,088	1.58%
Future United Investments Limited	623,514	1.56%
SRI Group Limited	1,009,740	2.52%
Kanwin Corporation	252,434	0.63%
Marketeer Management Limited	1,682,900	4.21%
	40,000,000	100.00%

*Note*: The 12,975,156 shares held by Upflow Holdings Limited already included the 10,000,000 Shares issued nil-paid to it on 7th November, 2002

<sup>c</sup> this figure encompasses rounding up discrepancies of 1 Share

After implementation of the above reorganization steps, all the then shareholders of GDC became Shareholders and the ultimate beneficial interest of each of the Shareholders in the Group before and after the completion of the above reorganization steps were the same.

20. Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement (where applicable), he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Initial Management Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if he/it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), he/it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when he/it receives indications, either oral or written, from the pledgee or charge that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by him or it will be or has been disposed of, he/it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

21. Each of the Significant Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Significant Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if he/it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), he/it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when he/it receives indications, either oral or written, from the pledgee or charge that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by him or it will be or has been disposed of, he/it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

22. Each of the Initial Management Shareholders and the Directors has confirmed that he/it has not entered into, and will not enter into, prior to the listing of Shares on GEM, any arrangements or agreements (other than those disclosed in this prospectus) in relation to the listing application of the Company on GEM, the Shares alloted and issued to the Shareholders or to be placed pursuant to the Placing, as well as the prices of the Shares.

Each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, he/it shall not, and shall procure that

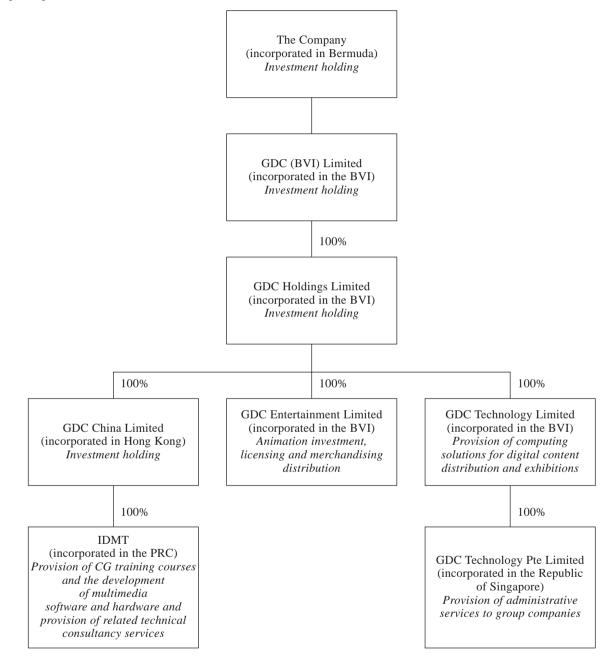
none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

In addition to the undertakings given by the Initial Management Shareholders and Significant Shareholders, each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited has undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

Each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited further confirm to the Company, the Sponsor, the Lead Manager and the Stock Exchange that, save as disclosed in this prospectus, he/it does not have any arrangement, agreement or transaction with the Company or any of its directors or the Initial Management Shareholders or any of their respective associates (as defined in the GEM Listing Rules).

### **CORPORATE STRUCTURE**

The following chart shows the corporate structure of the companies comprising the Group immediately after the listing of the Shares on GEM and their respective place of incorporation and principal activities:



Prior to the restructuring of GDC on 31st March, 2000, (i) both GDC China Limited and GDC Technology Limited were wholly owned by Financial Outreach Limited and (ii) GDC Entertainment Limited (formerly known as GDC Enterprises Limited) was owned as to 48.71% by Upflow Holdings Limited, as to 42.74% by Kingsway Technology Investments Limited and as to 8.55% by William Ka Chung Lam.

GDC was incorporated in the BVI on 29th December, 1999. On 11th January, 2000, Richard Yingneng Yin, William Ka Chung Lam and Raymond Neoh (who is the 100% ultimate shareholder of Upflow Holdings Limited) were appointed as directors of GDC and Anthony Neoh was appointed to join the GDC's board on 31st March, 2000.

On 31st March, 2000, 21,000,000 shares of US\$1.00 each ("GDC Shares") were issued to the following shareholders:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	36.714%
Anthony Neoh	4,500,000	21.428%
Christopher Paul Neoh	375,000	1.786%
William Ka Chung Lam	1,800,000	8.571%
Richard Yingneng Yin	300,000	1.429%
Kingsway Technology Investments Limited	1,500,000	7.143%
Financial Outreach Limited	600,000	2.857%
Ajitkumar Chandubhai Patel	375,000	1.786%
Sudden Win Holdings Limited	3,840,000	18.286%
Total	21,000,000	100.000%

On 10th May, 2000, Sotas Limited subscribed for 1,500,000 GDC Shares and the ultimate beneficial owners of Sotas Limited did not at that time, nominate any of their representatives to the board of directors of GDC. Following the said subscription of GDC Shares by Sotas Limited, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	34.266%
Anthony Neoh	4,500,000	20.000%
Christopher Paul Neoh	375,000	1.667%
William Ka Chung Lam	1,800,000	8.000%
Richard Yingneng Yin	300,000	1.333%
Kingsway Technology Investments Limited	1,500,000	6.667%
Financial Outreach Limited	600,000	2.667%
Ajitkumar Chandubhai Patel	375,000	1.667%
Sudden Win Holdings Limited	3,840,000	17.066%
Sotas Limited	1,500,000	6.667%
Total	22,500,000	100.000%

On 17th June, 2000, Chong Man Nang was granted 300,000 GDC Shares by GDC at nil consideration as a sign-up bonus under the engagement with GDC upon his joining GDC. At that time, Chong Man Nang was not appointed to the board of directors of GDC. Following the said grant of GDC Shares to Chong Man Nang, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	33.815%
Anthony Neoh	4,500,000	19.736%
Christopher Paul Neoh	375,000	1.645%
William Ka Chung Lam	1,800,000	7.895%
Richard Yingneng Yin	300,000	1.316%
Kingsway Technology Investments Limited	1,500,000	6.579%
Financial Outreach Limited	600,000	2.632%
Ajitkumar Chandubhai Patel	375,000	1.645%
Sudden Win Holdings Limited	3,840,000	16.842%
Sotas Limited	1,500,000	6.579%
Chong Man Nang	300,000	1.316%
Total	22,800,000	100.000%

On 21st August, 2000, Sotas Limited subscribed for an additional 1,500,000 GDC Shares, upon which Sotas Limited also nominated Chang Ka Ki George to be appointed as one of GDC's directors. Chang Ka Ki George was appointed to the board of GDC on 21st August, 2000. Following the additional subscription of GDC Shares by Sotas Limited, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.728%
Anthony Neoh	4,500,000	18.519%
Christopher Paul Neoh	375,000	1.543%
William Ka Chung Lam	1,800,000	7.407%
Richard Yingneng Yin	300,000	1.235%
Kingsway Technology Investments Limited	1,500,000	6.173%
Financial Outreach Limited	600,000	2.469%
Ajitkumar Chandubhai Patel	375,000	1.543%
Sudden Win Holdings Limited	3,840,000	15.802%
Sotas Limited	3,000,000	12.346%
Chong Man Nang	300,000	1.235%
Total	24,300,000	100.000%

On 25th August, 2000, Choi Chiu Man Kay, Wendy (who was nominated by Sudden Win Holdings Limited) was appointed as one of the GDC's directors.

Following the resignation of Choi Chiu Man Kay, Wendy (who was nominated by Sudden Win Holdings Limited) from GDC's board on 19th January, 2001, Sudden Win Holdings Limited sold off its entire shareholding of 3,840,000 GDC Shares to Forward Strategic on 20th January, 2001. The ultimate beneficial owners of Forward Strategic are passive investors who did not nominate any of their representatives to the board of directors of GDC. On the same day, Chong Man Nang was appointed as a director of GDC. Following the said transfer of GDC Shares by Sudden Win Holdings Limited to Forward Strategic, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.728%
Anthony Neoh	4,500,000	18.519%
Christopher Paul Neoh	375,000	1.543%
William Ka Chung Lam	1,800,000	7.407%
Richard Yingneng Yin	300,000	1.235%
Kingsway Technology Investments Limited	1,500,000	6.173%
Financial Outreach Limited	600,000	2.469%
Ajitkumar Chandubhai Patel	375,000	1.543%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.346%
Chong Man Nang	300,000	1.235%
Forward Strategic	3,840,000	15.802%
Total	24,300,000	100.000%

On 26th April, 2001, Bright Oceans Corporation (HK) Ltd subscribed for 400,000 GDC Shares, upon which David Deng Wei, its nominee, was appointed to the board of GDC on the same day. Following the said subscription of GDC Shares by Bright Oceans Corporation (HK) Ltd, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	1,800,000	7.287%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	1,500,000	6.073%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,840,000	15.547%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Total	24,700,000	100.000%

On 24th July, 2001, Forward Strategic transferred 200,000 GDC Shares to Future United Investment Limited. The ultimate beneficial owner of Future United Investment Limited is a passive investor who did not nominate any of his representatives to the board of directors of GDC. Following the said transfer of GDC Shares by Forward Strategic to Future United Investment Limited, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	1,800,000	7.287%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	1,500,000	6.073%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,640,000	14.737%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Future United Investments Limited	200,000	0.810%
Total	24,700,000	100.000%

On 31st January, 2002, Richard Yingneng Yin and William Ka Chung Lam both resigned from the board of GDC.

On 21st August, 2002, William Ka Chung Lam transferred 1,300,000 GDC Shares to Perfect Brilliant Limited and Kingsway Technology Investments Limited transferred 1,500,000 GDC Shares to Cyber Prime Developments Limited. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	500,000	2.024%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,640,000	14.737%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Future United Investments Limited	200,000	0.810%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,300,000	5.263%
Total	24,700,000	100.000%

On 25th October, 2002, William Ka Chung Lam transferred 500,000 GDC Shares to SRI Group Limited and Perfect Brilliant Limited transferred respectively 100,000 and 150,000 GDC Shares to SRI Group Limited and Kanwin Corporation respectively. The ultimate beneficial owners of SRI Group Limited and Kanwin Corporation are passive investors who did not nominate any of their representatives to the board of directors of GDC. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	0	0%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,640,000	14.737%
Bright Oceans Corporation (HK) Ltd	400,000	1.619%
Future United Investments Limited	200,000	0.810%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,050,000	4.251%
SRI Group Limited	600,000	2.429%
Kanwin Corporation	150,000	0.607%
Total	24,700,000	100.000%

On 2nd November, 2002, Forward Strategic transferred respectively 341,000 and 170,500 GDC Shares to Bright Oceans Corporation (HK) Ltd and Future United Investment Limited respectively. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	0	0%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	3,000,000	12.146%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,128,500	12.666%
Bright Oceans Corporation (HK) Ltd	741,000	3.000%
Future United Investments Limited	370,500	1.500%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,050,000	4.251%
SRI Group Limited	600,000	2.429%
Kanwin Corporation	150,000	0.607%
Total	24,700,000	100.000%

Following the resignation of Chang Ka Ki George (who was nominated by Sotas Limited) from GDC's board on 19th November, 2002, Sotas Limited transferred 1,000,000 GDC Shares to Marketeer Management Limited on 20th November, 2002. Following the said transfer of GDC Shares, GDC was owned as per the following chart:

Shareholders	GDC Shares	Percentage
Upflow Holdings Limited	7,710,000	31.214%
Anthony Neoh	4,500,000	18.219%
Christopher Paul Neoh	375,000	1.518%
William Ka Chung Lam	0	0%
Richard Yingneng Yin	300,000	1.215%
Kingsway Technology Investments Limited	0	0%
Financial Outreach Limited	600,000	2.429%
Ajitkumar Chandubhai Patel	375,000	1.518%
Sudden Win Holdings Limited	0	0%
Sotas Limited	2,000,000	8.097%
Chong Man Nang	300,000	1.215%
Forward Strategic	3,128,500	12.666%
Bright Oceans Corporation (HK) Ltd	741,000	3.000%
Future United Investments Limited	370,500	1.500%
Cyber Prime Developments Limited	1,500,000	6.073%
Perfect Brilliant Limited	1,050,000	4.251%
SRI Group Limited	600,000	2.429%
Kanwin Corporation	150,000	0.607%
Marketeer Management Limited	1,000,000	4.049%
-		
Total	24,700,000	100.000%

Subject to the aforesaid control and management, GDC operated as an investment vehicle to manage and operate its investment in, inter alia, GDC Technology Limited (which 100% owns GDC Technology Pte. Limited), GDC Entertainment Limited and GDC China Limited (which 100% owns IDMT). The aforesaid 3 subsidiaries were, inter alia, the principal operating subsidiaries of GDC.

On 3rd October, 2002 and 14th November, 2002, GDC Holdings Limited and GDC (BVI) Limited were respectively incorporated in the BVI, whilst on 9th October, 2002, the Company was incorporated in Bermuda, to partake in the corporate reorganization GDC. Details of the said corporate reorganization are set out in both note 20 to the sub-section headed "Shareholding structure and restrictions on disposal of Shares" in the section headed "Summary" and the section headed "Corporate reorganization" in appendix V to this prospectus. The said corporate reorganization was necessary to enable the listing of the Shares on GEM.

Since 31st December, 2002, there has been no further more changes in the shareholding structure in GDC up to the Latest Practicable Date.

As at 31st March, 2000, the directors of the board of GDC were Raymond Neoh, Anthony Neoh, William Ka Chung Lam and Richard Yingneng Yin.

GDC was not included in the Group because GDC and its member companies are dormant and have no business activities (other than DCDC which is elaborated in the section headed "Competing interest" of this prospectus).

The establishment of the Group is premised on the Directors' vision to be a leader in the CG creation and production and digital content distribution and exhibition industry in Asia Pacific. Since its establishment, the Group has developed an operating business comprising the following two inter-related components:

- (i) a cost effective CG creation and production business targeting the global market for movies, television programs, commercials and gaming; and
- (ii) a digital content distribution and exhibition business operation in the PRC and Asia Pacific (targeting initially Hong Kong, Singapore and India) via the digital distribution of movies, live events (such as education and auctions) to cinemas and other public venues.

At the conception stage, the founder saw that it was necessary to build an integrated business which exploits the entire value chain in the digital content business, encompassing creation, production (for its own projects and projects contracted to it by third parties) and distribution of digital contents, in order to meet two developing global trends of (i) strong continuing growth in demand for digital contents, particularly CG imaging; and (ii) a paradigm shift from a chemical film based medium to an electronic, digital medium in the cinema industry.

Two of the basic reasons why the high value end of digital content creation and production has so far concentrated in the United States are: (i) the general availability of skilled manpower and (ii) the existence of well managed production facilities. In the United States, many well known Schools of Fine Arts offer courses in computer animation and the University of California in Los Angeles as well as the University of Southern California offer degree courses in computer animation. There is a dearth of CG training in Asia. The Asian Region therefore has to pay premium salaries to the few who have been trained. The general lack of skilled manpower also meant that there have been few high quality productions coming out of the region. To the best knowledge of the Directors, there has so far been no full length feature CG 3D movie in high definition coming out of the Asia. The feature length animation coming out of Japan has been in 2D (hand drawn) animation with some 3D effects.

To compete in the high value end, the Group has established a training facility designed to produce a continuous supply of skilled and reasonably priced manpower and has now created a production house which has substantially completed a full length CG 3D animated movie in high definition. This positions the Group as a global player which can leverage on the lower cost human resources of the region, in particular the many graduates from the many Schools of Fine Arts in China.

The Group's self-developed digital cinema technology (all technology relating to DSR<sup>TM</sup> Digital Film Agile Encoders and DSR<sup>TM</sup> Digital Film Servers) is leading the paradigm shift away from film based distribution and uniquely positions the Group as a player in the distribution chain.

The Group commenced operations in January 2000 when GDC Entertainment Limited (formerly known as GDC Enterprises Limited) obtained all the copyrights and all other rights, titles and interests in and to a movie called *Thru the Moebius Strip* and engaged the services of various key personnel for the production thereof. Such copyrights and other rights to *Thru the Moebius Strip* were obtained through the operation of the respective service agreements signed by each of the Group's creative and production team members, an agreement between the Group and Jean Moebius Giraud dated 1st September, 2000 and an assignment dated 15th January, 2000 with Moebius Strip Limited (which was supplemented by a supplemental agreement dated 2nd May, 2003). Pursuant to the assignment, 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"; and (iii) 3% of the "net profit" from the Group's film production of *Thru the Moebius* Strip in excess of US\$240,000

from time to time ("Royalty"). The "net profit" which forms a determinant, upon which the Royalty are calculated, is equivalent to all revenue which GDC Entertainment Limited derives from all rights attached to *Thru the Moebius Strip* less all expenses. The assignment imposes on GDC Entertainment Limited the obligation to keep all usual books of account for not more than 3 years and render to Moebius Strip Limited, within six months after the end of each year after completion of *Thru the Moebius Strip*, any positive financial statements relating to the preceding year with each such statement accompanied by a remittance for the Deferment and/or Royalty shown in the statement as being due to GDC Entertainment Limited. For further details of the terms of the assignment, please refer to the sub-section headed "Connected transactions" in the section headed "Business" of this prospectus.

Pursuant to the various service agreements, the key personnel engaged to kick off the pre-production of Thru the Moebius Strip (such as the preparation of production bible and 2D story boards) were (i) Jean Moebius Giraud as the conceptual artist (from 15th January, 2000 to 6th May, 2000); (ii) Raymond Neoh and Arnold Gene Wong as the co-executive producers (from 15th January, 2000 to completion of Thru the Moebius Strip); (iii) Frank Foster as the director (from 1st January, 2000 to 1st January, 2002); and (iv) James Cox as the writer of the screenplay (from 15th February, 2000 to 17th October, 2000). Thru the Moebius Strip is now in production. Additional well known professionals from Hollywood involved in the production as employees of the Group have since included Paul Gertz as writer (from 14th April, 2002 to 23rd June, 2002), Kelvin Lee as animation director (from 10th October, 2001 to 30th June, 2003), Bob Koch, Wayne Kennedy and Manny Wong as CG supervisors (from 5th November, 2001 to 30th June, 2003; from 10th October, 2001 to 30th September, 2002; and from 16th November, 2001 to 15th June, 2003), Glenn Chaika as director (from 26th July, 2002 to 30th April, 2004), Fred Cline as production art director (from 19th August, 2002 to 11th January, 2003), and David Smith, as director of cinematography (from 10th October, 2002 to 16th December, 2002). Pursuant to a service agreement, David Kirschner was engaged as creative consultant from 13th December, 2002 until the end of the production of Thru the Moebius Strip and has the right to be credited as the producer of *Thru the Moebius Strip* in the finished film.

In June 2000, Dr. Chong Man Nang was engaged by GDC to develop the technology and business of digital content distribution and exhibitions. As a result of the Group's re-organization, Dr. Chong Man Nang's engagement with GDC was transferred to the Group.

In August 2000, with a view to providing CG training courses in the PRC, IDMT, a wholly-owned subsidiary of GDC China Limited, entered into an agreement with Shenzhen University in the PRC, pursuant to which the parties agreed to jointly establish a 3D animation special effects design curriculum for the training and cultivation of CG experts/professionals within the Shenzhen University. Under the terms of the agreement, Shenzhen University is responsible for providing (for a rental fee payable by IDMT) the training premises, offices and dormitories conducive towards the running of the training courses, whilst IDMT is responsible for organizing the training courses and its operating costs including the provision of equipment, course materials, lectures and tutors. The term for this agreement is two years commencing from 18th August, 2000 subject to automatic renewal for another one year provided that no negotiation is initiated by either party. As the premises for the training course may also be used as the Group's studios for its production, these premises have since been used as the Group's studios as well.

In August 2000 the Group signed a consultancy contract with Sony Pictures Imageworks, the studio that produced *Men In Black, Spiderman* and *Stuart Little*. Pursuant to the consultancy contract, Sony Picture Imageworks has agreed to provide consulting services to GDC Entertainment Limited regarding the development and production of *Thru the Moebius Strip*. For further details of the terms of the consultancy contract, please refer to the sub-section headed "Industry partners" in the section headed "Business" in this prospectus.

In November 2000, the Group commenced the training of its first batch of digital artists for CG production in Shenzhen, the PRC. The training course was jointly organised with Shenzhen University, the PRC.

Since the year end of 2000, IDMT has become a large full-time dedicated CG training facility in the PRC, with 150 trainees and a full time staff of 14 and was able to allow the full-time use of one work station per trainee for 24 hours a day.

Between June 2000 and March 2001, the Group undertook the first stage of the pre-production, which includes the preparation of the sketches, drawings and 2D story board, of *Thru the Moebius Strip* in the studios of GDC in Los Angeles, the US.

In May 2001, the Group entered into a legally binding memorandum of understanding with the CFG to equip 500 screens in the PRC with digital projection and playback equipment for a period of four to five years. Under the terms of the memorandum of understanding, the arrangements as to the sharing of box office receipts and fees from cinema advertising will be determined subject to negotiation of the two parties upon the material time.

In September 2001, the Group's digital cinema solution was successfully used in a live demonstration of distributing the Columbia Pictures' *Final Fantasy: The Spirits Within* via satellite transmission to cinemas in Beijing and Shanghai, the PRC.

In November 2001, the Group commenced the production of *Thru the Moebius Strip* in Shenzhen, the PRC.

In February 2002, the Group entered into an agreement with Shanghai Paradise Corporation, whereby Shanghai Paradise Corporation provides the cinema premises and the Group provides all necessary digital projection facilities and technical support. Under the agreement, the Group is entitled to a share of the box office and screen advertising receipts and a fixed return for franchise fees for use of the equipment over a period of 10 years. Further information on this agreement is disclosed in the paragraph headed "Shanghai Paradise Corporation" of the section headed "Business" of this prospectus. In the same month, the Group entered into an agreement with a Hollywood animation producer, David Kirschner, to engage his supervisory and production and consulting services in the production of *Thru the Moebius Strip* and for script and other creative development of future projects of the Group as may be agreed from time to time.

In March 2002, the Group set up a branch office in Shanghai, the PRC, responsible for co-ordinating and facilitating the Group's digital cinema business in the PRC and recruited two key personnels namely, Mr. Wu Mencheng and Mr. Jin Da who have over 25 years of experience in the cinema and film industries, to spearhead the Group's digital content distribution and exhibition business in the PRC. Mr. Wu and Mr. Jin both have since May 2003 left the Group.

In April 2002, the grand opening of the PRC's first digital cinema theatre run by Shanghai Paradise Corporation in Shanghai took place with the premiere of the PRC's digitally released, film-originated film called *The Missing Gun* (" $\[equiverse]$ , The subtitling, compression, encryption and packaging processes of *The Missing Gun* (" $\[equiverse]$ , were entirely handled by the Group's proprietary DSR<sup>TM</sup> Digital Film Agile Encoder. With the launch of *The Missing Gun* (" $\[equiverse]$ , the Group entered into a lease agreement with the Grand Theatre for the lease of digital projection facilities and technical support equipment to the latter, in consideration for a share of the box office and screen advertising receipts and a fixed rental for the equipment. The term of the lease agreement will expire when the Grand Theatre ceases to show films upon its major renovation.

On 19th April, 2002, GDC Technology Limited entered into an agreement and a non-disclosure agreement with TI to allow GDC Technology Limited's products to interface with DLP Cinema<sup>TM</sup> projector. The licence granted by TI is non-transferable, non-assignable, non-sublicensable, royalty-free and non-exclusive. Such agreement, which stipulates no specific term, is effective until terminated upon breach of such agreement by GDC Technology Limited. In the event of breach of such agreement by GDC Technology Limited such agreement. No consideration is involved for the agreement.

In June 2002, the GDC Technology Limited's encoder and server were chosen for the digital exhibition of Columbia Pictures' feature film *Final Fantasy: The Spirits Within* at the 6th Shanghai International Film Festival. The digital feature was exhibited at both the Shanghai Paradise and the Grand Theatre.

In July 2002, the PRC's second digital cinema, namely the Grand Theatre, was launched with the premiere of *Star Wars: Episode II — Attack of the Clones*.

In October 2002, GDC Technology Limited's DSR<sup>TM</sup> Digital Film Encoder and Server were successfully demonstrated at both the TI's DLP Cinema Laboratory in Dallas and at the ETC — Digital Cinema Laboratory. A short documentary of *Star Wars: Episode II — Attack of the Clones* was playback on a DLP Rear Projection HDTV set during the SMPTE Seminar entitled "Star Wars: Episode II — Attack of the Clones — A Case Study in Digital Cinema".

In November 2002, the Group's digital cinema technology was selected by Shanghai Film Studios to release its movie, *Red Snow*, in digital format. The digital feature was exhibited at both the Shanghai Paradise and the Grand Theatre.

On 16th December, 2002, the Group entered into a sale and purchase agreement with Adlabs pursuant to which Adlabs has agreed to purchase from the Group (i) 400 DSR<sup>TM</sup> Digital Film Servers between January 2003 and January 2004; and (ii) 1,000 DSR<sup>TM</sup> Film Servers between February 2004 and January 2008. On the same day, the Group and Adlabs entered into another agreement pursuant to which Adlabs shall sell and the Group shall purchase 3,200 shares of Adlabs D2C Applications Pvt Ltd, a wholly-owned subsidiary of Adlabs, which is engaged in digital content distribution and exhibition of feature films in India and owns and operates cinemas in India, representing an 8% equity interest in Adlabs D2C Applications Pvt Ltd. The said sale and purchase of 3,200 shares is conditional upon, among other things, the successful listing of the Shares on GEM and the consideration thereof shall be US\$1,000,000 (which was determined with reference to the in-house assessment of business prospects of Adlabs D2C Applications Pvt Ltd.) because the Directors consider that it would better serve the Company's interest as the Group shall by listing become more flexible in terms of resources deployment. The investment of the Group in Adlabs D2C Apllications Pvt Ltd is strategic in nature. The Group intends to settle the aforesaid consideration from internal resources of the Group and not from the net proceeds of the New Issue. In the case that such transaction would constitute a notifiable transaction of the Company, the Company will ensure full compliance with the relevant disclosure and/or other requirements of the GEM Listing Rules. Further announcement(s) will be made as and when necessary. In addition, the Group has reached an understanding with WAMC, Inc. representing Raggedy Entertainment Inc. for the financing, co-production and distribution of the television series The New Adventures of Raggedy Ann & Andy and its related merchandises. The Group is in an advanced stage of negotiation in respect of the relevant agreement and is in the process of finalising the terms of the relevant agreement.

In February, 2003, the Company entered into a co-operation agreement with Shanghai Xin Chang Ning for the provision of CG training in Shanghai, the PRC.

In March and April 2003, the Group reached a further understanding with WAMC, Inc. for the financing, co-production and distribution of the television series based on *Thru the Moebius Strip*, the feature film *The Eyes of the Dragon* and their related merchandises. The Group is in an advanced stage of negotiation in respect of the relevant agreements and is in the process of finalising the terms of the relevant agreements.

On 20th June, 2003, the Group entered into a sale and purchase agreement ("Disposal Agreement") with Raymond Neoh pursuant to which Raymond Neoh agreed to sell one-third of the equity interest in Moebius Strip Limited to the Group at a consideration of US\$100,000. Moebius Strip Limited did not have profit or loss for the years ended 31st December, 2001 and 2002 and the net liabilities of Moebius Strip Limited as at 31st December, 2001 and 2002 were approximately HK\$16,000 and HK\$16,000 respectively. Moebius Strip Limited has no business operation other than its entitlement to the Deferment and the Royalty pursuant to the assignment agreement between Moebius Strip Limited and the Group dated 15th January, 2000. This consideration, which was arrived at after arm's length negotiation between Raymond Neoh and the Company, is calculated at 1% of a valuation of approximately US\$10,000,000 on Thru the Moebius Strip (which falls between the low scenario valuation of US\$8.7 million and a medium scenario valuation of US\$18.4 million) by Grant Sherman Appraisal Limited (taking into account the revenue from the box office only). The aforesaid rate of 1% was determined on the basis of and is identical to one third of the total 3% entitlement to which Moebius Strip Limited can be entitled under the Royalty, which was determined based on commercial negotiations amongst Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong. The cash consideration of US\$100,000 shall only be settled one year after the Listing Date and is scheduled to be settled from the internal resources of the Group and not from the net proceeds of the New Issue. If and upon completion of the Disposal Agreement, the Group's obligation to pay the Royalty would be reduced effectively from 3% to 2% of the "net profit" of Thru the Moebius Strip.

On 2nd July, 2003, the Group entered into a cancellation agreement with Raymond Neoh pursuant to which the Disposal Agreement was cancelled. On 2nd July, 2003, the Group was informed by Raymond Neoh that he had entered into a sale and purchase agreement dated 2nd July, 2003 pursuant to which Raymond Neoh had disposed of his entire shareholding interest (being one-third of the total issued shareholding interest) in Moebius Strip Limited to Arnold Gene Wong (who was also an existing shareholder of Moebius Strip Limited holding the then one-third of the total issued shareholding interest thereof) for a cash consideration of US\$100,000, which is equivalent to the consideration under the Disposal Agreement on or before 1st July, 2006. Prior to completion of the relevant sale and purchase agreement, Moebius Strip Limited is a company owned as to one-third by Raymond Neoh (the executive Director), as to one-third by Jean Moebius Giraud, and the remaining one-third by Arnold Gene Wong. Following completion of the relevant sale and purchase agreement, Moebius Strip Limited has become a company owned as to one-third by Jean Moebius Giraud with the remaining two-thirds owned by Arnold Gene Wong. Raymond Neoh, the executive Director, considers that the sale of his share in Moebius Strip Limited to Arnold Gene Wong is, for Mr. Wong, an incentive for better performance and at the same time a reward for his past contributions. The Directors further advised that, although approximately 70% of Thru the Moebius Strip had been completed, it is still not yet a finished product that can be launched in the market. Besides, a producer of a film plays an important role in the success of that film, particularly in ensuring that the film will be of a quality that is acceptable to the general public. Furthermore, Mr. Wong also has considerable experience in the film industry and has wide contact with different people in that industry. The Directors believe that these factors will be beneficial to the film in terms of its future distribution and marketing. In essence, as a result of the sale and purchase agreement, Arnold Gene Wong has become entitled to double his share of the future net profit potential of Thru the Moebius Strip and will then become more inclined to be more dedicated to the production of it. Given such cancellation of the Disposal Agreement, the Group remains liable to pay the full 3% of the Royalty, i.e. the Group's entitlement to the "net profit" of Thru the Moebius Strip remains at 97% (before any apportionment to relevant crew of the production team of Thru the Moebius Strip).

The following is a statement of active business pursuits of the Group for each of the two years ended 31st December, 2002 and for the period from 1st January, 2003 to the Latest Practicable Date.

## For the year ended 31st December, 2001

## Sales and marketing

- Began negotiations with independent third parties in relation to the CG production for television series and feature films in March
- Entered into a legally binding memorandum of understanding with the CFG to equip 500 screens in the PRC with digital projection and playback equipment for a period of four to five years in May
- Held successfully a live demonstration of the Group's satellite transmitted digital cinema solution by distributing the Columbia Pictures' *Final Fantasy: The Spirits Within* via satellite transmission to digital cinemas in Beijing and Shanghai, the PRC in September
- Promoted *Thru the Moebius Strip*, with articles appearing in the Hollywood Reporter, Wired Magazine and many websites
- Began to set up an office which engages in the operations of digital cinemas in Shanghai, the PRC
- Attended the New York Licensing Show in New York, the US in June

## Training

- Graduated first batch of 150 digital artists in June
- Began second CG training course in Shenzhen for approximately 120 students in September
- Employed four US technical and creative professionals for training in October and November
- Began to provide shorter courses
- Produced a Chinese book entitled "Digital Compositing" for the Group's CG training course in the PRC

## Production

- Set up production facilities for 108 digital artists in October
- Built production network and linux-based network platform
- Conducted pre-production of Thru the Moebius Strip in Los Angeles, the US and the PRC
- Formed storyboard department and reinforced 2D art department in the PRC
- Recruited four experienced supervisors from the US who have been key animators and supervisors in major Hollywood box office success in October and November

## Research and development

- Completed all research and development for working model of digital cinema server and encoder for end-to-end solution for digital cinema, which was successfully demonstrated in Beijing and Shanghai, the PRC in August
- Developed in-house software for rendering, lighting and special effects with the assistance of input from the Group's US supervisors and its own software developers

## Human resources deployment

- Recruited 111 digital artists from the first batch of graduates from the Group's CG training course in Shenzhen
- As at 31st December, 2001, the Group had a total of 169 staff, a functional analysis of which is as follows:

Management	2
CG creation and production	133
Research and development	8
Sales and marketing	1
Tutors	8
Finance and administration	17
Total	169

### Finance

• Completed one round of fund-raising of a total of approximately US\$3 million (equivalent to approximately HK\$23,400,000)

## For the year ended 31st December, 2002

### Sales and marketing

- Attended the AFM with first show reel of *Thru the Moebius Strip* in February
- Signed up two digital cinemas (namely the Shanghai Paradise and the Grand Theatre) in February
- Participated in various trade shows to show the Group's "Digital Super Realism" (DSR<sup>TM</sup>) Server and Encoder during May to December
- Digital exhibition of Columbia Pictures' feature film *Final Fantasy: The Spirits Within* at 6th Shanghai International Film Festival in both the Shanghai Paradise and the Grand Theatre in June
- Digital exhibition of 20th Century Fox Pictures' feature film *Star Wars: Episode II Attack of the Clones* in both the Shanghai Paradise and the Grand Theatre; the Shanghai Paradise achieved the top box office in PRC for the exhibition of *Star Wars: Episode II Attack of the Clones in* July
- Digital exhibition of Shanghai Film Studios' feature film, *Red Snow* in both the Shanghai Paradise and the Grand Theatre in November

- Established a magazine publishing and conferencing committee within the Group for the publication of the "Asia Digital Film, CG and Games" online magazine in the website of the Group, which targeted readers include professional digital content developers, artists and distributors
- Commenced negotiations with the WAMC, Inc. for the financing, co-production and distribution of the television series namely, *The New Adventures of Raggedy Ann & Andy, the Panshel, the Flying Panda* and *The Eyes of the Dragon*, a featured film based on a novel written by Stephen King and their respective related merchandises
- Entered into a sale and purchase agreement in December with Adlabs for the sale of a total of 1,400 DSR<sup>TM</sup> Digital Film Servers between January 2003 and January 2008

## Training

- Graduated approximately 120 digital artists in June
- Began third CG training course for approximately 150 students in Shenzhen in September

## Production

- Expanded production facilities to approximately 165 digital artists as at 31st December, 2002
- Continued the CG production work for *Thru the Moebius Strip*
- Signed an agreement with a Hollywood animation producer, David Kirschner, for script and other creative development of existing and future projects of the Group in February
- Recruited an art director and cinematographer from the US who have all been involved in large budget Hollywood CG productions
- Created pipeline for television projects

## Research and development

- Achieved lower cost solutions for digital cinema
- Finalising a JPEG2000 compression engine for digital cinema solution
- Commenced research and development for interactive digital cinema
- Entered into an agreement and a non-disclosure agreement with TI to allow GDC Technology Limited's products to interface with DLP Cinema<sup>TM</sup> projector in April
- Achieved MPEG-2 4:2:2 and 4:2:0 compression engines for digital cinema application; the quality of the solution was examined and evaluated at both the TI's DLP Cinema Laboratory in Dallas, Texas and at the ETC Digital Cinema Laboratory in May
- Completed encryption validation tests for final stage decryption for TI DLP Cinema Projector at TI in July
- Working on a 10-bit compression engine for digital cinema compression

- Conducted numerous field tests of all digital cinema solutions and conducted technology validation tests at TI by Dr. John Soraghan, Reader in Digital Signal Processing, Strathchyde University, the United Kingdom in September
- Began to demonstrate interactive digital cinema prototypes in November
- Began design of derivative products, including a full scale network based entertainment system for a holiday resort/cruise ship group in December
- Developed in-house software CG solutions for *Thru the Moebius Strip*
- Signed a non-disclosure agreement with BDC as part of on-going evaluation tests with it in its digital cinema laboratory in Los Angeles, the US. The purpose of BDC test is to fully evaluate the functionality of Group's DSR<sup>TM</sup> Digital Film Agile Encoder and Digital Film Server.

### Human resources deployment

- Recruited 78 digital artists from the second batch of graduates from the Group's CG training course in Shenzhen
- As at 31st December, 2002, the Group had a total of 249 staff, a functional analysis of which is as follows:

Management	6
CG creation and production	200
Research and development	11
Sales and marketing	2
Tutors	9
Finance and administration	21
Total	249

### Finance

Obtained a loan facility of RMB30,000,000 from Bank of China, Shenzhen Branch in October, out of which RMB15,000,000 had been drawn down. The operations of the Group were also financed by shareholders' loans/advances. Advance from the executive Director, Raymond Neoh, as at 31st December, 2002 of which HK\$598,000 represented unpaid salaries for the months October to December of 2002 of HK\$247,000 and expenses relating to business trips taken during 2002 and 2001 not yet reimbursed. Advance from the Chief Administration Officer of the Company, Ms. Amelia Mak Lai Yu, as at 31st December, 2002 of HK\$3,300,000 represented additional working capital provided to the Company which was fully settled subsequent to 31st December, 2002. Advance from a shareholder of the Company, Mr. Richard Yingneng Yin, as at 31st December, 2002 of HK\$12,000 represented the costs of business trips made by Mr. Richard Yingneng Yin to the PRC not yet reimbursed. The amount has been fully settled subsequent to 31st December, 2002. In addition, the Group effected a deed of novation under the terms of which the Group agreed to takeover the benefits and obligations of GDC under the Middle Asia Subscription Agreement, pursuant to which the Group provided to Middle Asia Limited the Convertible Note. Middle Asia Limited is wholly owned by a fund which is beneficially owned as to 30% by SW Kingsway and as to 70% by a Hong Kong private company which is also independent of, and not connected with, any of the directors, chief executive,

# STATEMENT OF ACTIVE BUSINESS PURSUITS

substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. The Company repaid the Convertible Note in March 2003.

# For the period from 1st January, 2003 to the Latest Practicable Date

# Sales and marketing

- Attended the ShoWest for the promotion of DSR<sup>TM</sup> digital server and encoder in March
- Entered into a co-operation agreement with Shanghai Xin Chang Ning for provision of CG training in Shanghai in February
- Attended the AFM for the pre-sale of *Thru the Moebius Strip* in February
- Delivered 11 and 25 DSR<sup>TM</sup> Digital Film Digital Agile Encoders and DSR<sup>TM</sup> Digital Film Servers to Adlabs in April and May respectively
- Delivered 1 DSR<sup>TM</sup> Digital Film Servers to BDC in June
- Commenced negotiation with an international distributor of *Thru the Moebius Strip* for worldwide distribution except for North America, Japan and the PRC

# Training

• Began recruitment of students for CG training courses in Shenzhen and Shanghai respectively

# Production

• Conducted post-production of *Thru the Moebius Strip* in Los Angeles, the US

# Research and development

- Migrated to newer technology with the primary interests to lower production cost, improve production pipeline, and improve reliability
- Began Near-Term Application-Specific (NTAS) Research with the primary interests to improve competitive edge and meet new (customers/markets) requirements
- Began Mid-To-Long-Term Application-Specific (MTLTAS) Research to with the primary interest to develop new products, markets, and applications

# STATEMENT OF ACTIVE BUSINESS PURSUITS

# Human resources deployment

• As at the Latest Practicable Date, the Group had a total of 245 staff, a functional analysis of which is as follows:

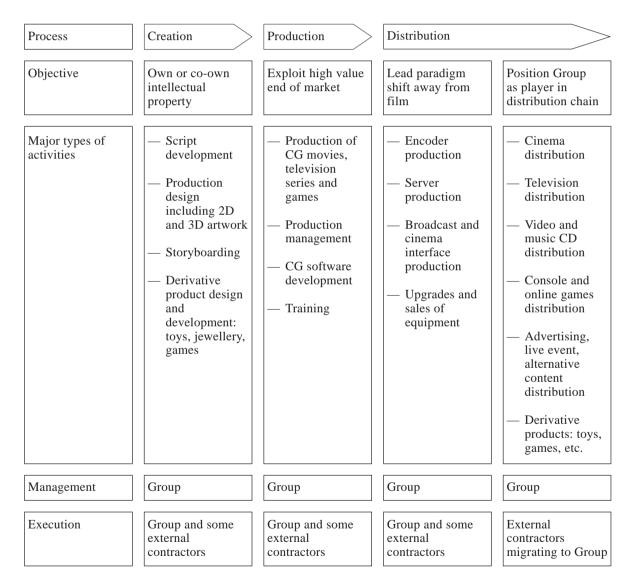
Management	7
Management	1
CG creation and production	176
Research and development	21
Sales and marketing	1
Tutors	23
Finance and administration	17
Total	245

# Finance

- Obtained a loan facility of RMB30,000,000 from 深圳市商業銀行 (Shenzhen Commercial Bank), out of which RMB15,000,000 had been drawn down. The operations of the Group were also financed by loans/advances of HK\$2,000,000 and HK\$468,000 from Kingsway Finance and Mr. Anthony Neoh respectively in March and April
- Issued 2,302,681 new Shares which shall immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option represent 38,000,000 Share which is at least 4.87% of the total issued Shares to Overseas Chinese Town for a cash consideration of HK\$28,500,000 in June 2003
- Issued 945,311 new Shares which shall immediately after the New Issue and Capitalization Issue but before the exercise of the Sotas Option represent 15,600,000 Shares which is at least 2.00% of the total issued Shares to CITIC International Assets Management Limited for a cash consideration of HK\$11,700,000 in June 2003

# **DESCRIPTION OF BUSINESS**

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



### CG creation and production

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

#### **Operating a production pipeline**

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

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

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

*Tron* is a Hollywood movie and its story line is an adventure about a hacker who is split into molecules and is transported into a computer. *Willow* is a Hollywood movie, the story line of which is about Willow, a small farmer/apprentice magician, who meets a great swordsman and together they journey through a war-torn land of magic and monsters, to save a baby princess from death at the hands of an evil queen. *Masters of the Universe* is a Hollywood movie and its story line is a fantasy action-adventure between a group of freedom fighters, led by the He-man and the evil Skeletor who wants to take over the planet. *Alien* is a Hollywood movie which is about an adventure of the crew of a mining ship which was investigating an SOS, lands on a distant planet. The crew discovers some strange creatures and investigates. *The Abyss* is a Hollywood movie which is about a civilian diving team which is enlisted to search for a lost nuclear submarine and faced danger while encountering an alien aquatic species. *The Fifth Element* is a Hollywood movie which is about a beautiful young woman who holds the secret that can defeat an evil alien force.

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

#### Digital content distribution and exhibitions

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

# Technology development

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

# Franchise of digital content equipment

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

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

# DSR<sup>TM</sup> Digital Film Server

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

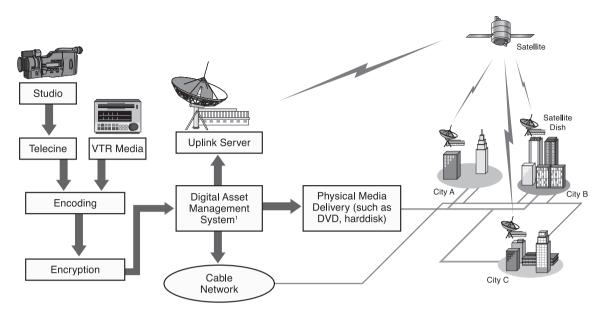
# DSR<sup>TM</sup> Digital Film Agile Encoder

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

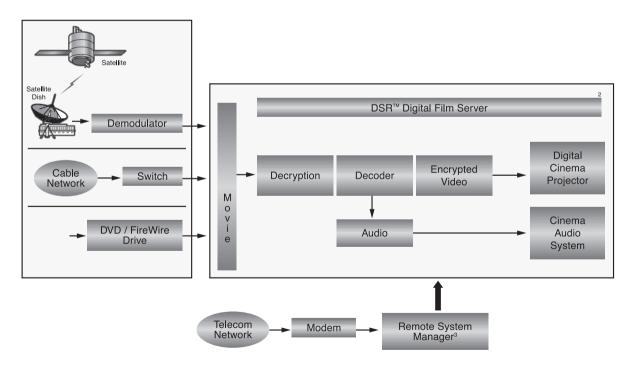
The DSR<sup>TM</sup> Digital Film Agile Encoder offers uncompressed digital film storage in a compact chassis of 5RU which can record more than two hours of uncompressed digitized movie at 1920x1080x30bit pixels at 24fps (more than 2 TeraBytes of storage). The DSR<sup>TM</sup> Digital Film Agile Encoder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

# Digital content distribution

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



Digital Content Distribution Framework for Digital Cinema



Notes:

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

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

The Group's research and development team has also achieved a number of breakthroughs, including an MPEG-24:2:2 digital film server, the only MPEG 4:2:2 digital film server for the digital film industry as at the Latest Practicable Date. Presently the research and development team is developing a software JPEG 2000 based digital film server that is to be delivered by the first half of 2003. The next generation of encoder and digital film server will improve in picture quality by adopting 10-bit quantization solution; the 10-bit encoder and digital server are expected to be deployed by the first half of 2003. The research and development team keeps in close touch with developments in the standards being discussed in the Committee DC28 of the SMPTE. The Group is confident that it can adequately respond to the DC28 requirements in a timely manner due to the flexibility of its software architecture.

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

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

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

### Provision of CG training courses

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

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

# **REVENUE MODEL**

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

Revenue model for existing business

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

# Revenue model for future business

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

# **COMPETITIVE EDGE**

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

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

# **CG PRODUCTION PROCESS**

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

#### **Creative development**

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

# **Pre-production**

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

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

### Production

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

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

#### **Post-production**

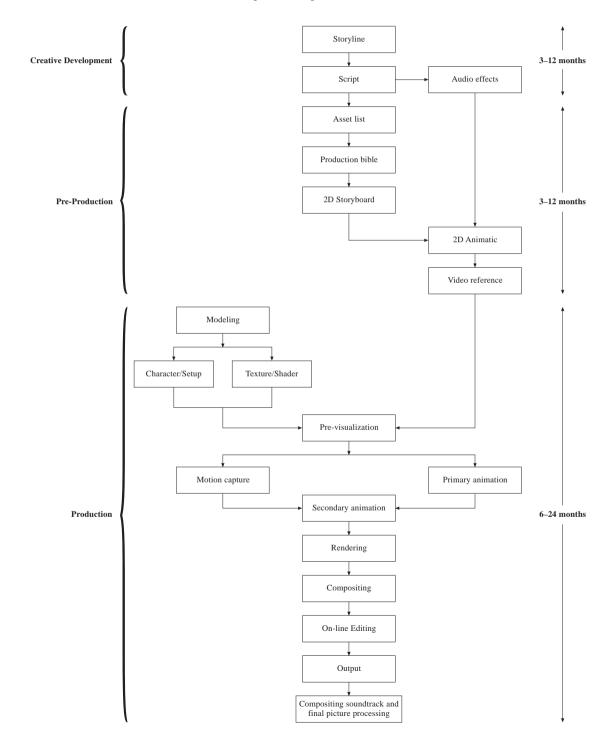
The post-production stage consists of two parallel processes: the picture process and the sound process. In the picture process, images are put on film which is then sent to a laboratory for color correction and final prints are made. If the film is shown digitally, the Group transfers the original rendered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

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

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

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

#### **Descriptions of production flow**



# **Creative development**

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

# **Pre-production**

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

# Production

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

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

#### Post production

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

# **PROJECTS ON HAND**

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

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

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

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

required to complete the production of *Thru the Moebius Strip* which include the incorporation of sound effects and voices for characters using talents sourced from the US. In addition, the Group has reserved an amount of approximately HK\$10 million for contingency purposes. The Directors further expect that the film will be completed in the last quarter of 2003 for release in the first quarter of 2004. The details of the cost incurred in relation to the aforesaid project are set out in the accountants' report in Appendix I to this prospectus and the Directors are of the opinion that the costs incurred for production work in progress carried forward in the balance sheet as at 31st January, 2003 are fully recoverable.

#### **PROJECTS UNDER DISCUSSION**

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

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

# **INDUSTRY PARTNERS**

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

#### Sony Pictures Imageworks

In August 2000, the Group signed a consultancy agreement with Sony Pictures Imageworks which is an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules, pursuant to which Sony Pictures Imageworks has agreed to provide consulting services to GDC Entertainment Limited in connection with the Group's development and production of *Thru the Moebius Strip*, in particular the special effects and rendering used in the film. As consideration for providing the aforesaid consultancy services, Sony Picture Imageworks is entitled to collect 1% of the "net profits", if any, derived from the exploitation of *Thru the Moebius Strip*. The aforesaid "net profits" which forms a determinant, upon which the consideration is calculated, is equivalent to all the revenue which GDC Entertainment Limited derives from broadcast (including Internet), videograms, public showing, performance and merchandising of *Thru the Moebius Strip* less the copyright royalties, cost of distribution and cost of production.

#### **David Kirschner**

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

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

#### CFG

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

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

#### Shanghai Paradise Corporation

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

# ΤI

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

## WAMC, Inc.

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

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

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

#### **Overseas Chinese Town**

Overseas Chinese Town is a wholly owned subsidiary of Overseas Chinese Town Holding Company (華僑城集團公司). Overseas Chinese Town Holding Company is wholly owned by State Assets Regulatory Commission of PRC\* (中國國有資產監督管理委員會). The principal business of Overseas Chinese Town is investment management and its principal business activities include businesses involved in paper packaging, household electronic appliances, hotel and tourism (which includes the operation of theme parks and related businesses). Overseas Chinese Town is an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. **Overseas Chinese Town is a Shareholder and will hold approximately 4.87% of the enlarged issued share capital of the Company upon the Listing Date.** 

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

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

#### Shanghai Xin Chang Ning

Shanghai Xin Chang Ning is a company wholly owned by the Shanghai Municipal District of Chang Ning which is engaged in real estates business and an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules.

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

### SUPPLIERS

The Group's major suppliers of computer software are Alias Wavefront and Discreet which are independent third parties not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. Alias Wavefront is the supplier of the CG software MAYA to the Group's studios and provides customised technical support to the Group's CG development and production work connected with MAYA. Discreet is the supplier of the 3ds max CG software to the Group's studios and provides customised technical support to the Group's CG development and production work connected with 3ds max. IDMT is also an accredited 3ds max training school. Dell Computer (China) Company Limited ("Dell"), an independent third party not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules, is the major supplier of computer hardware for the Group's production studio and training school. IDMT and Dell entered into an agreement dated 31st July, 2001 pursuant to which IDMT agreed to expedite/streamline its purchase of computer products from Dell, based on its application of its company seal onto price quotations from Dell, as confirmation of order. The payment terms for hardware/software ranged from advanced deposit to 30 day's credit period.

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

# **PRODUCTION FACILITIES**

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

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

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

#### TRAINING FACILITIES

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

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

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

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

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

# QUALITY CONTROL

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

#### CG creation and production

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

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

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

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

#### Digital content distribution and exhibitions

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

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

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

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

# SECURITY CONTROL

#### CG creation and production

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

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

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

#### Digital content distribution and exhibitions

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

This is because the Group will:

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

# SALES AND MARKETING

#### CG creation and production

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

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

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

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

### Digital content distribution and exhibitions

During the active business pursuit period, the Group has actively participated in various international shows such as AFM and ShoWest for the promotion of the Group's DSR<sup>TM</sup> Digital Film Agile Encoders and DSR<sup>TM</sup> Digital Film Servers. In December 2002, the Group entered into a sale and purchase agreement with Adlabs pursuant to which Adlabs has agreed to purchase from the Group (i) 400 DSR<sup>TM</sup> Digital Film Servers between January 2003 and January 2004; and (ii) 1,000 DSR<sup>TM</sup> Film Servers between February 2004 and January 2008. As at the Latest Practicable Date, an aggregate of 36 DSR<sup>TM</sup> Digital Film Agile Encoders and/or DSR<sup>TM</sup> Digital Film Servers have been delivered to Adlabs.

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

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

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

#### **RESEARCH AND DEVELOPMENT**

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

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

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

#### SOTAS OPTION

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

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

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

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

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

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

#### INTELLECTUAL PROPERTY RIGHTS

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

# COMPETITION

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

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

Since the Group mainly concentrates on long-format CG production and targets markets in North America, Japan and Europe, the Directors consider that at present competition mainly comes from small and medium sized production houses in these regions where the CG technology is sophisticated. The Directors consider that the Group is more competitive due to its ability to capitalise on PRC high quality and lower labour cost and computer system cost as well as its efficient production pipeline which is specifically designed to cater for long-format animation production. The Directors believe that the Group's access to the much larger pool of talent and the still much lower cost base in the PRC makes it more competitive than other Hong Kong studios.

#### CONNECTED TRANSACTIONS

#### **Exempt connected transactions**

### Financial assistance

#### (a) Loans from Anthony Neoh

Between 1st January, 2002 to 28th November, 2002, Anthony Neoh advanced various loans to GDC totalling HK\$9,660,783. Pursuant to a deed of novation dated 28th November, 2002 entered into between Anthony Neoh, GDC and GDC Holdings Limited, this amount was novated to GDC Holdings Limited. Between the period from 29th November, 2002 to the Latest Practicable Date, Anthony Neoh advanced various loans to the Group totalling HK\$3,206,204 (together the "Neoh Facility"). Interest shall accrue from day to day on the outstanding principal amount of the Neoh Facility at the best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum. The Neoh Facility is unsecured with no fixed repayment terms. The interest rate charged by Anthony Neoh is determined by reference to the financial position of the Group and the absence of any security or guarantee in favour of the Neoh Facility and the Directors (including the independent non-executive Directors) and the Sponsor consider that the interest rate is a normal commercial interest rate. Anthony Neoh has given an undertaking that he will not demand repayment for the Neoh Facility until the later of 12 months from 31st May, 2003 or a date upon which such repayment would not have material adverse effect on the operation of the Group and implementation of the Group's business objectives as set out in this prospectus. As Anthony Neoh is the chairman of the Company, a non-executive Director and an Initial Management Shareholder, the transactions between Anthony Neoh and the Group would constitute connected transactions of the Company should the Shares be listed on GEM. The Directors confirm that the above loans were applied towards the CG production of Thru the Moebius Strip and as working capital of the Group.

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

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

On 31st October, 2002, IDMT entered into a loan agreement with the Bank of China, Shenzhen Branch pursuant to which Bank of China, Shenzhen Branch has agreed to provide a facility of RMB30,000,000 to IDMT (the "BOC Loan") for a term of two years (the "BOC Loan Agreement"). On 31st October, 2002, IDMT made a drawdown totalling RMB15,000,000. The BOC Loan is individually and separately guaranteed by GDC and CICG, which is a third party independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them. The guarantee given by GDC shall be effective till two years upon the expiry of

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

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

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

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

On 21st March, 2003, IDMT entered into a loan agreement with Shenzhen Commercial Bank (the "SCB") pursuant to which the SCB has agreed to provide a facility of RMB30,000,000 to IDMT (the "SCB Loan") for a term of two years (the "SCB Loan Agreement"). On 21st March, 2003, IDMT made a drawdown totalling RMB15,000,000. The SCB Loan is guaranteed by CICG, which is a third party independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them, The guarantee given by CICG shall be effective till three years upon the expiry of the term of the SCB Loan. In addition, each of Raymond Neoh and the Company has also individually and separately given a counter-guarantee to CICG in favour of CICG for the repayment of all the debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the SCB Loan. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CICG ("SCB Asset Pledge") for the repayment of all debts incurred by CICG for which CICG is liable under the guarantee given by it respect of the SCB Loan. The said counter-guarantees given by Raymond Neoh and the Company and the SCB Asset Pledge shall continue to be effective until IDMT has repaid all debts it has incurred under the SCB Loan Agreement. No security nor consideration has been given by IDMT or any member of the Group to Raymond Neoh, the Company for giving of the counter-guarantees to CICG.

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

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

#### Exempt continuing connected transactions

#### (a) Lease of a director's quarters

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

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

#### (b) Lease of staff quarters

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

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

# CERTAIN TRANSACTIONS INVOLVING CERTAIN INITIAL MANAGEMENT SHAREHOLDERS AND GDC IN RESPECT OF THE BUSINESS OF THE GROUP

#### (a) The Moebius Strip Assignment

Moebius Strip Limited obtained the intellectual property rights of *Thru the Moebius Strip* (the "Film") subject to an assignment dated 15th January, 2000 (the "Assignment"), executed between Moebius Strip Limited (the "Assignee") and Raymond Neoh, Jean Moebius Giraud and Arnold Gene Wong (the "Assignors"), who are collectively the absolute, legal and beneficial co-owners of the copyright and all other rights of the Film. The consideration for the Assignment amounted to US\$300,000, which the Assignee paid to the Assignors on the same date of the Assignment. Moebius Strip Limited has no business operation other than its entitlement to the Deferment and the Royalty pursuant to the assignment agreement between Moebius Strip Limited and the Group dated 15th January, 2000.

On 15th January, 2000, GDC Entertainment Limited, a wholly owned subsidiary of the Company, entered into an assignment with Moebius Strip Limited, a company owned as to one-third by Raymond Neoh, the executive Director, as to one-third by Jean Moebius Giraud and the remaining one-third by Arnold Gene Wong, for the assignment of the copyright and all other rights in and to the Film. Jean Moebius Giraud and Arnold Gene Wong are independent third parties not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. Pursuant to the assignment (which was supplemented by a supplemental agreement dated 2nd May, 2003), the consideration for the assignment involved (i) US\$60,000 (which had been paid); (ii) deferred "net profit" from the Group's production of the Film up to a maximum of US\$240,000 should the Group's production of the Film generates a "net profit" ("Deferment"); and (iii) 3% of the "net profit" of the Group's production of the Film in excess of US\$240,000 from time to time ("Royalty"). For clarity, in the event that the Film fails to generate a positive "net profit", no Deferment shall be payable.

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

The assignment imposes on GDC Entertainment Limited the obligation to keep all usual books of account for not more than 3 years and render to Moebius Strip Limited, within six months after the end of each year after completion of the Film, any positive financial statements relating to the preceding year with each such statement accompanied by a remittance for the Deferment and/or Royalty shown in the statement as being due to GDC Entertainment Limited.

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

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

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

Details of the above cancellation agreement and sale and purchase agreement are set out in the section headed "History and Development" of this prospectus. Given the signing of the said cancellation agreement and the sale and purchase agreement, the Assignment and the Disposal Agreement has ceased to be past continuing connected transaction and past connected transaction respectively. Moebius Strip Limited has no business operation other than its entitlement to the Deferment and the Royalty pursuant to the assignment agreement between Moebius Strip Limited and the Group dated 15th January, 2000. Save as disclosed in this prospectus, the Directors confirm that there was no arrangement between (i) the Company; and (ii) Raymond Neoh and/or Arnold Gene Wong. Save as disclosed in this prospectus, Raymond Neoh confirms that he has no arrangement with Arnold Gene Wong.

#### (b) Interest Free Loan from GDC

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

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

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

On 17th October, 2001, GDC entered into an agreement with E-Talent, which is owned by Ms. Po Mei Ching, pursuant to which E-Talent advanced various loans to GDC totalling HK\$5,800,000 (the "E-Talent Facility"). E-Talent and Ms. Po Mei Ching are independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them. Interest shall accrue from day to day on the outstanding principal amount of the E-Talent Facility at the best lending rate as quoted by the Standard Chartered Bank, Hong Kong from time to time plus 3% per annum. The E-Talent Facility is unsecured.

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

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

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

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

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

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

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

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

# (e) Advances from Raymond Neoh and Anthony Neoh

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

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

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

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

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

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

#### **COMPETING INTEREST**

As at the Latest Practicable Date, Forward Strategic had approximately 21.4% equity interest in DCDC Limited (a BVI company), which in turn had a 100% equity interest in DCDC. DCDC is principally engaged in CG production, in particular 3D animation in Hong Kong. As at the Latest Practicable Date and to the best of the Directors' awareness, the registered shareholders of the remaining 78.6% equity interest in DCDC Limited are CityU Enterprises Limited (as to approximately 27%); Famemark Limited (as to approximately 20%); Cybertronic Co. Ltd (as to approximately 21.1%) and Interform Assets Limited (as to approximately 10.5%). CityU Enterprises Limited, Famemark Limited, Cybertronic Co. Ltd and Interfor Assets Limited are independent third parties not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules. Forward Strategic is a wholly-owned subsidiary of GDC the shareholders of which are as follows:

Name of Shareholder	Shareholding in GDC
Initial Management Shareholders	
Upflow Holdings Limited	32.4%
Anthony Neoh	18.9%
Chong Man Nang	1.3%
Bright Oceans Corporation (HK) Limited	3.1%
Richard Yingneng Yin	1.3%
Forward Strategic	9.3%
Sotas Limited	8.4%
Perfect Brilliant Limited	4.4%
	79.1%
	Shareholding
Name of Shareholder	in GDC
Other Shareholders	
Cyber Prime Developments Limited	6.3%
Christopher Paul Neoh	1.6%
Financial Outreach Limited	2.5%
Ajitkumar Chandubhai Patel	1.6%
Future United Investments Limited	1.6%
SRI Group Limited	2.5%
Kanwin Corporation	0.6%
Marketeer Management Limited	4.2%
	20.9%
	100.0%

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

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

# INFORMATION ON THE CONVERTIBLE NOTE

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

The principal terms of the Convertible Note are as follows:

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

# DIRECTORS, AUDIT COMMITTEE, SENIOR MANAGEMENT AND STAFF

# DIRECTORS

#### Chairman and Non-executive Director

*Mr. Anthony Francis Neoh, SC, JP*, aged 56, is the Chairman of the Board. Mr. Anthony Neoh was appointed as a Director in November 2002 and is responsible for the operational and strategic planning of the Group. In October 1998, at the invitation of Premier Zhu Rongji, he became current Chief Advisor of the China Securities Regulatory Commission. He was appointed as the Chairman of the SFC in 1995 in which capacity he served until September 1998. Prior to chairing the SFC, he served 13 years in the Hong Kong Civil Service having served in various directorate appointments before joining the private Bar in 1979. During his time in the private Bar, he was active in public service, serving as a member of many public boards. He is an actively practising Senior Counsel of the Hong Kong Bar and is a member of the California Bar and the English Bar. He was also Chairman of the Technical Committee of the International Organization of Securities Commissions from 1996 to 1998. He also served as visiting professor in many universities, including Peking, Tsinghua and Harvard Universities. Mr. Anthony Neoh is the elder brother of Mr. Raymond Neoh.

# **Executive Director**

*Mr. Raymond Dennis Neoh*, aged 52, is the founder of the Group. Mr. Raymond Neoh is also the Chief Executive Officer of the Group and the Chief Operating Officer in charge of the CG creation and production business of the Group. He holds a bachelor degree in Business Administration from Hawaii Pacific University and a Master degree in International Management from the American Graduate School of International Management in May 1976. He has been involved in CG processing since early 1980's in California, the US and is a voting member of American Computer Machine Association and member of SIGGRAPH. In 1998, he obtained support from the Hong Kong Government and the City University of Hong Kong to establish DCDC and trained over 300 CG artists from 1998 to early 2000. Mr. Raymond Neoh was an executive director of DCDC between 26th March, 1999 and 13th October, 2001. He also set up the production pipeline which enabled DCDC to produce a 26 episode full CG television series, consisting of a total of 13 hours of animation. Mr. Raymond Neoh is the younger brother of Mr. Anthony Neoh.

#### **Non-executive Directors**

Mr. David Deng Wei, aged 39, was appointed as a Director in April 2003. Mr. Deng holds a bachelor degree in Electronic Engineering, a master degree in Business Administration. Mr. Deng holds various public positions in the PRC such as acting as a member of Chinese People's Political Consultative Conference (全國政協委員), and is a part-time professor at the Technical Institute of the Harbin University (哈爾濱工業大學). He has also received various awards for his achievements in the PRC such as the 10th Annual "Ten Most Outstanding Youth" in the PRC.

*Mr. Richard Yingneng Yin*, aged 50, was a director of (i) GDC China Limited between March 2000 to September 2002; (ii) IDMT between August 2000 and September 2002; and (iii) GDC Entertainment between July 2001 and June 2002. Mr. Yin was appointed as a Director in April 2003. He is a fellow member of the Institute of Chartered Accountants of both England and Wales, and Australia. Mr. Yin has extensive experience in various regulatory organisations, including Australian Securities and Investments Commission, the New South Wales Corporate Affair Commission and the SFC. Prior to re-joining the Group in 2003, Mr. Yin was director of Intermediaries Supervision Department in the SFC. Mr. Yin is currently a director and chief executive officer of Weaver International Limited, a Bermuda company which engages in financial software development and a non-executive director of SW Kingsway.

# DIRECTORS, AUDIT COMMITTEE, SENIOR MANAGEMENT AND STAFF

#### **Independent non-executive Directors**

*Mr. Gordon Kwong Che Keung*, aged 53, was appointed as an independent non-executive Director in April 2003. Mr. Kwong graduated from the University of Hong Kong in 1972 and qualified as a chartered accountant in England in 1977. Mr. Kwong was a partner of Price Waterhouse Hong Kong from 1984 to 1998. He has served as a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of the Stock Exchange from 1992 to 1997 during which time he had acted as convener of both the Compliance Committee and the Listing Committee of the Stock Exchange. Currently, he is a non-executive director of a number of other Hong Kong listed companies.

*Professor Japhet Sebastian Law*, aged 51, was appointed as an independent non-executive Director in April 2003. Professor Law obtained his Ph.D. in Mechanical/Industrial Engineering from the University of Texas at Austin in 1976. He joined the Chinese University of Hong Kong in 1986. He was the Associate Dean and subsequently the Dean of the Faculty of Business Administration Chinese University of Hong Kong from 1993 until 2002. Prior to returning to Hong Kong, Professor Law was the Director of Operations Research at the Cullen College of Engineering and Director of Graduate Studies in Industrial Engineering at the University of Houston, and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. Professor Law has acted as a consultant with various corporations in Hong Kong and overseas. He is also active in public services, having served as Member of the Provisional Regional Council of the Hong Kong SAR Government, and is currently the Chairman of Oxfam Hong Kong. Professor Law is a teaching Professor in the Department of Decision Sciences and Managerial Economics at the Chinese University of Hong Kong.

*Mr. Stephen Scharf*, aged 53, was appointed as an independent non-executive Director in April 2003. Mr. Stephen Scharf is currently a partner in O'Melveny & Myers LLP's Century City office and specializes in entertainment and media finance. A substantial part of his practice involves motion picture, television and multimedia financing transactions including banking transactions, securitizations, tax shelter financings, completion guaranties and equity investments. Mr. Scharf has worked on a number of international motion picture financing transactions in the United Kingdom, Germany, Japan, Hong Kong, Australia, and Canada. Mr. Stephen Scharf obtained his J.D. at Stanford Law School in 1975.

#### **COMPLIANCE OFFICER**

*Mr. Raymond Dennis Neoh*, is also the Chief Executive Officer and one of the authorised representatives of the Company.

#### AUDIT COMMITTEE

The Company has established an audit committee on 18th July, 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and accounts, interim/half-year and quarterly reports.

The audit committee has three members comprising the three independent non-executive Directors, namely Mr. Gordon Kwong Che Keung, Professor Japhet Sebastian Law and Mr. Stephen Scharf. Mr. Gordon Kwong Che Keung is the Chairman of the audit committee.

#### SENIOR MANAGEMENT

*Dr. Chong Man Nang*, aged 36, is the Chief Technology Officer of the Group in charge of the digital content distribution and exhibitions business of the Group. Dr. Chong is responsible for the technical support for the Group's CG production. He was the chief consultant of Da Vinci Technologies Pte. Limited, a wholly owned subsidiary of the NASDAQ listed Acterna Incorporation from 2000 to 2002. Dr. Chong was an Associate Professor at the School of Computer Engineering, Nanyang Technological University of Singapore from 1992 to 2000. In 1996, he led a team to win the worldwide TI's Digital Signal processing Solutions Challenge award of US\$100,000. In 1999, Dr. Chong founded the Nirvana Digital Pte. Ltd., a leading digital signal processing company which was subsequently acquired by Acterna Corporation in April 2000. Dr. Chong is credited with the invention and successful commercial release of Nirvana's award-winning RIVIVAL DIGITAL<sup>TM</sup> product lines. Dr. Chong has also credited with Hollywood's production such as 20th Century Fox's *Kung Pow: Enter the Fist* which was released on 2,480 screens in the US in January 2002. Dr. Chong joined the Group in September 2000.

*Mr. Adrian Mak Yau Kee*, aged 42, is the Chief Financial Officer of the Group and qualified accountant of the Company. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. Mr. Mak has over 18 years of accounting and corporate finance experience in the private and public sectors gained in Hong Kong and the United Kingdom. Prior to his current position, Mr. Mak was the Chief Financial Officer for CyberCity Holdings Limited. Between 1992 and 2000, Mr. Mak was an associate director of the Corporate Finance Division at the SFC with responsibilities for regulating takeover and merger transactions and developing listing policy with the Stock Exchange. Mr. Mak graduated from the University of Birmingham with a B. Sc. Degree in Chemical Engineering. Mr. Mak joined the Group in August 2002.

*Ms. Amelia Mak Lai Yu*, aged 55, is the Chief Administration Officer and Legal Adviser of the Group responsible for legal, administration and corporate affairs. She was Legal Executive in charge of the Litigation Department of H. H. Lau & Co., Solicitors from 1974 to 1980. During this time, she was involved in many landmark cases in the Hong Kong Courts and in the Privy Council. In 1981, she became legal adviser to the Young Chi Shing Group. From 1989 to 1995, she became the Legal Adviser and Company Secretary to Miramar Hotel and Investment Co Ltd., a company listed on the Stock Exchange. Since 1995 she served for two years as Legal Adviser in the Guoco and Dao Heng Group and thereafter returned to the Young Chi Shing Group. Ms. Mak joined the Group in December 2000.

*Mr. Benjamin Ng*, aged 50, is the Asia Pacific director of GDC Technology Limited and has more than 25 years of experience in the field of marketing and event organisation. He had served the Andry Montgomery Group in the United Kingdom for 12 years. After he left the Andry Montgomery Group, he worked as a vice president for the Times Publishing Group. In 1995, he joined International Theatre Technology (later known as Greater Union Entertainment Technology) and in 1999 moved to head the operations of Christie Incorporated in Asia. He was the director of partners in Media, a publisher of TV Asia and Asia Image trade magazines between 1993 and 1998. Since 1996, he has been the Chairman of Exhibition Committee of the International Design Forum (IDF). Mr. Ng joined the Group in August 2002.

*Mr. Parimal Aswani*, aged 25, is the Senior Research and Development Engineer for GDC Technology Limited. He received his Master of Engineering degree from Nanyang Technological University, Singapore in 2000. His masters research was on Model-based segmentation of image sequences used in MPEG4 and he has 7 years of experience in digital video processing. He received his Bachelor degree in Computer Engineering from the same university in 1999 with a first class honours. His accelerated honours project was on Video Noise Reduction and MPEG2 Compression. He joined the Group in October 2000.

*Ms. Ellen Ling Xu*, aged 40, is the Studio Manager of IDMT. She graduated from Shangdong Teacher's University with a bachelor of arts degree in English language and literature. Ms. Xu has over 6 years of experience in the animation industry and was a production manager of Pacific Rim Animation Co., Ltd., an American animation studio in Shenzhen, the PRC from 1992 to 1994 and the producer of the Spanish television series *The Adventure of Professor Thomason*. She also has over 6 years of experience in marketing. She had served as one of the judges for Animation of Golden Eagle Award, the biggest award for TV programs in the PRC and is currently an active member of Cartoon Commission of the Chinese TV Artists Association. Ms. Xu joined the Group in October 2002.

*Mr. Ujval Lodha*, aged 25, is the Senior Research and Development Engineer of the Group. Mr. Lodha received his Bachelor degree in Computer Engineering from Nanyang Technological University in Singapore in 1998. He has since worked with Hewlett Packard R&D in developing embedded systems for printers and Isolis (Singapore) Private Ltd in providing design and development consulting for e-business solutions. He was also one of the founders of an e-business company buyittogether.com which was later acquired by a Scandinavian company coshopper.com. During his studies, he had undertaken research in optimizing motion estimation algorithms for parallelization and developing visual languages for algorithm simulations. His studies in Singapore were on a complete scholarship from Singapore Airlines. He joined the Group in October 2001 and is now working on high definition movie compression and encryption techniques.

*Ms. Joyce Kau Chui Fan*, aged 26, is the Accountant of the Group. Prior to joining the Group in September 2002, Ms. Kau had worked in Deloitte Touche Tohmatsu, Hutchison Port Holdings Limited and Lam Soon Hong Kong Limited in Hong Kong. She is an associate member of the Association of Chartered Certified Accountants, and received her Bachelor degree in Business Administration from the Hong Kong University of Science and Technology.

*Ms. Dai Lun*, aged 28, is the Accountant of IDMT. Ms. Dai is a Fellow Member of the Chinese Institute of Certified Public Accountants and a graduate of North Jiaotong University with a bachelor degree in Financial Management. Prior to her current position, Ms. Dai Lun was the Accountant for Zhengzhou Railway Bureau in Henan Province, the PRC between 1996 and 1999 and was an audit manager for Guangshen Certified Public Accountants in Shenzhen between 2000 and 2001. Ms. Dai joined the Group in June 2001.

# MANAGEMENT STRUCTURE

Set out below is the management structure of the Group:



### STAFF

#### **Overview of staff**

As at the Latest Practicable Date, the Group had a total of 245 staff. The breakdown of staff by function and geography is as follows:

	Hong Kong	The PRC	Singapore	Total
Management	4	2	1	7
CG creation and production	5	171	_	176
Research and development	1	12	8	21
Sales and marketing	—	1	_	1
Tutors		23		23
Finance and administration	2	15		17
	12	224	9	245

### **Relationship with staff**

The Group recognises the importance of training for its staff. Apart from on-the-job training, the Group also regularly provides internal and external training for its staff to enhance their technical knowledge.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

#### Benefits

The Group provides various employees' benefit, including provision of a medical scheme and staff quarters.

The Group has implemented a defined contribution retirement scheme for its staff in Hong Kong in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Monthly contributions are based on a percentage of the employees' basic salaries.

In Singapore, it is mandatory for the Company's wholly-owned subsidiary in Singapore, namely, GDC Technology Pte Limited, to contribute to the Central Provident Fund retirement scheme on a monthly basis. Contributions to such scheme, which is a defined contribution retirement scheme, are calculated at a percentage of the gross salaries of its employees.

In compliance with the relevant rules and regulations of the PRC, IDMT has purchased social insurance in the PRC, and has taken out old-age insurance, unemployment insurance and basic medical insurance for the benefit of its eligible employees.

For each of the two years ended 31st December, 2002 and the one month ended 31st January, 2003, the Group incurred retirement benefit cost of approximately HK\$231,000, HK\$780,000 and HK\$91,000 respectively. The retirement benefit scheme costs charged to the consolidated profit and loss account represent gross contributions paid and payable by the Group to the above schemes. The assets of the schemes in Hong Kong and Singapore are held separately from those of the Group in independently administered funds.

#### **Share Option Scheme**

Pursuant to a resolution passed at the special general meeting of the Company on 18th July, 2003, the Company has conditionally adopted the Share Option Scheme whereby full-time or part-time employees and directors (whether executive directors, non-executive directors or independent non-executive directors) of the Company, or any of its subsidiaries or associated companies, may be granted options to acquire Shares. The principal terms of the Share Option Scheme are set out in the section headed "Share Option Scheme" in appendix V to this prospectus.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

# SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, after completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option, the following persons and/or company will be interested in 10% or more of the voting power at any general meeting of the Company:

Name	Number of Shares	Approximate % of shareholding
Upflow Holdings Limited (Note)	214,127,516	27.5
Raymond Neoh (Note)	214,127,516	27.5
Anthony Neoh	124,974,230	16.0

Note: Upflow Holdings Limited is wholly and beneficially owned by Raymond Neoh.

#### SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, after completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option, the following persons and/or companies (other than Initial Management Shareholders) will be entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company.

Name	Number of Shares	Approximate % of shareholding
Cyber Prime Developments Limited (Note)	41,658,077	5.4
Billion On Development (Note)	41,658,077	5.4
Festival Developments Limited (Note)	41,658,077	5.4
Kingsway China Holdings Limited (Note)	41,658,077	5.4
SW Kingsway (Note)	41,658,077	5.4

*Note:* Cyber Prime Developments Limited is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway. Accordingly, Billion On Development Limited, Festival Developments Limited, Kingsway China Holdings Limited and SW Kingsway are all deemed to be interested in the 41,658,077 Shares held by Cyber Prime Developments Limited, their associate.

Each of the Significant Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by it or its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Significant Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when it receives indications, either oral or written, from the pledgee or chargee that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by it will be or has been disposed of, it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that it will place its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

### **INITIAL MANAGEMENT SHAREHOLDERS**

So far as the Directors are aware, after completion of the New Issue and the Capitalization Issue, the following persons and/or companies are considered to be the initial management shareholders (as defined in the GEM Listing Rules) of the Company:

Name	Number of Shares	Approximate % of shareholding
Upflow Holdings Limited (Note 1)	214,122,516	27.5
Raymond Neoh (Note 1)	214,122,516	27.5
Anthony Neoh (Note 2)	124,974,230	16.0
Chong Man Nang (Note 3)	8,331,615	1.1
Bright Oceans Corporation (HK) Limited (Note 4)	20,579,090	2.6
David Deng Wei (Note 4)	10,289,545	1.3
Huang Yi (Note 4)	8,231,636	1.0
Zhang Dong Sheng (Note 4)	2,057,909	0.3
Richard Yingneng Yin (Note 5)	8,331,615	1.1
Forward Strategic (Note 6)	61,015,197	7.8
Sotas Limited (Note 7)	55,544,102	7.1
Morningside CyberVentures Holdings Limited (Note 7)	55,544,102	7.1
Verrall Limited (Note 7)	55,544,102	7.1
Perfect Brilliant Limited (Note 8)	29,160,654	3.8
William Ka Chung Lam (Note 8)	29,160,654	3.8
	522,059,019	67.0

#### Notes:

- 1. Upflow Holdings Limited is wholly and beneficially owned by Raymond Neoh, who is an executive Director. Accordingly, Upflow Holdings Limited and Raymond Neoh are Initial Management Shareholders.
- 2. Anthony Neoh is a non-executive Director and is therefore an Initial Management Shareholder. Anthony Neoh is the elder brother of Raymond Neoh and Christopher Paul Neoh.
- 3. Chong Man Nang is a member of the senior management of the Company and is therefore an Initial Management Shareholder.
- 4. Bright Oceans Corporation (HK) Limited is ultimately and beneficially owned as to 50% by David Deng Wei, as to 40% by Huang Yi and as to 10% by Zhang Dong Sheng. David Deng Wei is a non-executive Director. Accordingly, Bright Oceans Corporation (HK) Limited, David Deng Wei, Huang Yi and Zhang Dong Sheng are Initial Management Shareholders.

- 5. Richard Yingneng Yin is a non-executive Director and is therefore an Initial Management Shareholder.
- 6. Forward Strategic is a wholly-owned subsidiary of GDC which is owned as to approximately 32.4% by Upflow Holdings Limited, which is in turn wholly owned by Raymond Neoh. For further details of the shareholding structure of GDC, please refer to the sub-section headed "Competing interest" in the section headed "Business" in this prospectus. On 8th January, 2001, GDC and Sudden Win Holdings Limited entered into an agreement pursuant to which GDC agreed to sell and Sudden Win Holdings Limited agreed to purchase, 31.605% equity interest in DCDC held in the name of Forward Strategic together with the benefit and obligations of an option to purchase from an another shareholder of DCDC 5% of the entire issued shares of another company. In consideration for the sale of the 31.605% equity interest in DCDC and the assignment of the said option, Sudden Win Holdings Limited shall surrender 3,840,000 shares of GDC (representing approximately 15.8% of the then issued share capital of GDC). Immediately after completion of the agreement, Forward Strategic was interested in 3,840,000 shares of GDC (representing approximately 15.8% of the then issued share capital of GDC) surrendered by Sudden Win Holdings Limited and 21.395% interest in DCDC.

On 24th July, 2001, Forward Strategic transferred 200,000 shares of GDC (representing approximately 0.8% of the then issued share capital of GDC) to Future United Investments Limited at a cash consideration of US\$1,000,000.

On 2nd November, 2001, Forward Strategic transferred (i) 170,500 shares of GDC (representing approximately 0.7% of the then issued share capital of GDC) to Future United Investments Limited at a cash consideration of US\$250,000; and (ii) 341,000 shares of GDC (representing approximately 1.4% of the then issued share capital of GDC) to Bright Oceans Corporation (HK) Limited at a cash consideration of US\$500,000.

Pursuant to a reorganization of the Company effected in November and December 2002, Forward Strategic became a Shareholder.

On 20th March, 2003, the shareholders of Forward Strategic, have by written resolution, adopted a share option scheme ("Scheme") also dated 20th March, 2003, wherein its board is entitled to grant options ("Options") to grantees such that they can purchase Shares from Forward Strategic pursuant to the terms of the Scheme. The grant of such Options is to remunerate the grantees for their contributions made to the Group. Salient terms are as follows:

- (a) the scheme period during which options can be granted by the board of Forward Strategic under the Scheme is from of 20th March, 2003 to the Latest Practicable Date. As such, no further Options can be offered or granted after the Latest Practicable Date;
- (b) the exercise price is the amount of HK\$1.00 which is payable to Forward Strategic upon the exercise of any Options (whether in whole or in part);
- (c) the total number of Shares which can be purchased by the grantees from Forward Strategic upon their exercise of their Options is 3,697,331 Shares, which are existing and issued Shares which represented the entire shareholding interest held by Forward Strategic in the Company as at 20th March, 2003, which also represented approximately 9.2% of the issued share capital of the Company as at the Latest Practicable Date. The aforesaid 3,697,331 Shares shall represent 61,015,197 Shares and 7.8% of Shares (held immediately after the new Issue and the Capitalization Issue before the exercise of the Sotas Option);
- (d) the grantees eligible for the Options include any full-time/part-time employees, directors and consultants of the Group;
- (e) subject to the option period of each Option being not more than ten years from the date of grant of the relevant Option, the board of Forward Strategic may in the letters containing the offers of Options impose restrictions on the exercise of the Options so granted;
- (f) as at 20th March, 2003, Options to purchase from Forward Strategic an aggregate 61,015,197 Shares (on a basis that the Capitalization Issue were then taken place) have been granted by Forward Strategic;
- (g) As at the Latest Practicable Date, all the grantees to the Scheme (as shall be disclosed hereunder), but save for David Kirschner, with the aggregate number of Options of 59,629,594 Shares, have accepted the offer of their respective Options;

(h) as the Scheme provides that in the event of alteration in the capital structure of the Company prior to the Listing Date or in the event of any alteration in the capital structure by way of consolidation, sub-division or reduction of the share capital of the Company after the Listing Date whilst any option remains exercisable, except for the issue of Shares as consideration in a transaction, corresponding alterations shall be made to give the grantees the same proportion of equity capital in the Company as to which they were personally entitled, and as the Capitalization Issue was approved by the Shareholders' resolutions passed at the Company's special general meeting held on 18th July, 2003, the Options granted by Forward Strategic as at the Latest Practicable Date were correspondingly altered/adjusted to become Options to purchase an aggregate of 61,015,197 Shares and which options were granted to the following persons in such number as set opposite their names below:

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options as at date of grant (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Directors				
Anthony Neoh	Chairman and a non- executive Director	32,201,692	the date of acceptance of the relevant options to the Latest Practicable Date and from 1 year after the Listing Date to 19th March, 2013	4.12%
Raymond Neoh	Chief executive officer and an executive Director	4,818,450	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.62%
Richard Yingneng Yin	Non-executive Director	5,387,778	the date of acceptance of the relevant options the Latest Practicable Date and from 1 year after the Listing Date to 19th March, 2003	0.69%
Senior Management of the Group				
Chong Man Nang	Chief technology officer	8,331,616	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	1.07%
Mak Yau Kee, Adrian	Chief financial officer	2,221,764	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.28%
Mak Lai Yu, Amelia	Chief administration officer/legal adviser	2,221,764	the later of (i) 3 years from her employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.28%

Name of grantee	Title/Position held at the Company and/or GDC and/or their respective subsidiaries	Number of Shares subject to the Options as at date of grant (Note)	Exercisable from	Approximate percentage of issued Shares (Note)
Benjamin Ng	General manager of GDC Technology Pte. Limited	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Consultant of the Company				
David Kirschner	Executive producer of <i>Thru the</i> <i>Moelius Strip</i> and a consultant of the Company	1,388,603	1 year from the Listing Date to 19th March, 2013	0.18%
Employee of the Group				
Ujval Lodha	Senior research and development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Parimal Aswani	Senior research and development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Ong Kiem Ching	Senior development engineer	833,162	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.11%
Thanakorn Kitticharernkul	Research and development engineer	555,441	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.07%
Pranay Kumar	Research and development engineer	555,441	the later of (i) 3 years from his employment with the Group and/or the GDC Group; or (ii) 1 year from the Listing Date to 19th March, 2013	0.07%
Total		61,015,197		7.82%

*Note:* These figures are calculated on the basis of 780,000,000 Shares in issue immediately after the New Issue and Capitalization Issue but before enlargement by the issue of Shares pursuant to any Options which may be granted under the Share Option Scheme and/or the Sotas Option.

Since adoption of the Scheme and immediately before the Latest Practicable Date, no Options granted under the Scheme were exercised. Exercise of any of these outstanding Options will not have a dilution/consolidation effect on the shareholdings of the Shareholders at the time of such exercise of Options as well as on the earnings per Share for the relevant financial year of the Group given that the Shares subject to the Options were existing Shares outstanding and held by Forward Strategic, as at the Latest Practicable Date.

All the Shares held by Forward Strategic were designated as Option Shares for the benefit of the management of the Company under a pre-IPO share option plan.

- 7. Sotas Limited is a wholly-owned subsidiary of Morningside CyberVentures Holdings Limited. Morningside CyberVentures Holdings Limited is wholly-owned by Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. None of the discretionary objects of the family trust are Directors. Sotas Limited had a board representation in GDC between August 2000 and November 2002. Sotas Limited does not have any management function in the Group and has no intention to be involved in the management of the Group in the future. However, Sotas Limited, Morningside CyberVentures Holdings Limited and Verrall Limited have agreed that they shall be subject to the same restriction on disposal of shares which is imposed by the GEM Listing Rules on Initial Management Shareholders.
- Perfect Brilliant Limited is a company wholly and beneficially owned by William Ka Chung Lam. As William Ka Chung Lam was a director of GDC between January 2000 and January 2002, Perfect Brilliant Limited and William Ka Chung Lam are regarded as Initial Management Shareholders.

Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement (where applicable), he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Initial Management Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if he/it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), he/it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when he/it receives indications, either oral or written, from the pledgee or chargee that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by him or it will be or has been disposed of, he/it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

Each of Financial Outreach Limited, Christopher Paul Neoh, SRI Group Limited, Kanwin Corporation, Marketeer Management Limited, Overseas Chinese Town and CITIC International Assets Management Limited has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager

and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company owned by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Raymond Neoh has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months immediately following the Listing Date; he shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Upflow Holding Limited beneficially owned by him.

Those shareholders of GDC who are also Initial Management Shareholders have undertaken, and all the remaining shareholders of GDC have undertaken or will, before the Listing Date, undertake to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date they shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of GDC and Forward Strategic (as the case may be) beneficially owned by them.

Each of David Deng Wei, Huang Yi and Zhang Dong Sheng has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date they shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Bright Oceans Corporation (HK) Limited beneficially owned by them.

Each of Verrall Limited and Morningside CyberVentures Holdings Limited has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date it shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Morningside CyberVentures Holdings Limited and Sotas Limited (as the case may be) beneficially owned by them. Verrall Limited will also undertake to the Company and the Stock Exchange that, during the period of 12 months from the Listing Date, it will not change the discretionary objects of the trust upon which it currently holds the shares in Morningside CyberVentures Holdings Limited as trustee of the trust will be binding upon its successors as trustees of the trust.

William Ka Chung Lam has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date he shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options,

rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Perfect Brilliant Limited beneficially owned by him.

Each of SW Kingsway, Kingsway China Holdings Limited, Festival Developments Limited and Billion On Development Limited has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date it shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Kingsway China Holdings Limited, Festival Developments Limited, Billion On Development Limited and Cyber Prime Developments Limited (as the case may be) beneficially owned by it.

Daniel Gia Tien Lam has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date he shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Financial Outreach Limited beneficially owned by him.

Each of Heng Fung Holdings Limited and Heng Fung Capital Company Limited has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date it shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Heng Fung Capital Company Limited and SRI Group Limited (as the case may be) beneficially owned by it.

Victor Yang has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date he shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Kanwin Corporation beneficially owned by him.

Elizabeth Lee Ka Ying has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that during the period of 12 months from the Listing Date she shall not sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the shares of Marketeer Management Limited beneficially owned by her.

# SHARE CAPITAL

Authorised:		HK\$
1,200,000,000	Shares	12,000,000
Issued and to be iss	sued, fully paid or credited as fully paid:	
43,247,992	Shares in issue as at the date of this prospectus	432,480
66,300,000	Shares to be issued pursuant to the New Issue	663,000
670,452,008	Shares to be issued pursuant to the Capitalization Issue	6,704,520
780,000,000	Shares	7,800,000

Notes:

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of the listing of the Shares and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of its issued share capital in the hands of the public which, in the case of the Company, is not less than 25%.

#### Assumptions

The above table assumes that the New Issue and the Capitalization Issue become unconditional.

It takes no account of any Shares which may be issued under the Share Option Scheme and/or the Sotas Option, or under the general mandate to issue Shares (see below "General mandate to issue Shares"), or Shares which may be repurchased by the Company (see below "General mandate to repurchase Shares").

#### Ranking

The New Shares will rank pari passu in all respects with all Shares then in issue or to be issued and, in particular, will qualify for all dividends or other distributions thereafter declared, paid or made on the Shares.

#### Share Option Scheme

The Company has conditionally adopted the Share Option Scheme, a summary of the principal terms of which are set out in the paragraph headed "Share Option Scheme" in appendix V to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to any full-time or part-time employees of the Group, including any Directors and certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed to the Group provided that the overall limit on the number of Shares which may be issued upon the exercise of all options to be granted and yet to be exercised under the Share Option Scheme and other share option schemes of the Company, shall not exceed 30% of the Shares in issue from time to time.

#### General mandate to issue Shares

A general unconditional mandate has been granted to the Directors to allot, issue and deal with (otherwise than by way of rights issues, by virtue of scrip dividend schemes or other similar arrangements in accordance with the articles of association of the Company or pursuant to the exercise of the options under the Share Option Scheme) on behalf of the Company, Shares with an aggregate nominal value of not exceeding the sum of:

- 20% of the aggregate nominal value of the share capital of the Company in issue immediately after the completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option; and
- the aggregate nominal amount of share capital of the Company purchased under the authority granted to the Directors referred to in the paragraph headed "General mandate to purchase Shares" below.

# SHARE CAPITAL

This mandate will remain in effect until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

For further details of this general mandate, see the section headed "Resolutions of the Shareholders passed at the Company's special general meeting held on 18th July, 2003" in appendix V to this prospectus.

#### General mandate to repurchase Shares

A general unconditional mandate has been granted to the Directors to exercise all the powers of the Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, such numbers of securities of the Company as will represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately after completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option.

This mandate will remain in effect until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

For further details of this general mandate, see the section headed "Purchase by the Company of its own securities" in appendix V to this prospectus.

### INDEBTEDNESS

### Borrowings

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

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

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

- (i) Upflow Holdings Limited, a Shareholder and Anthony Neoh, a Shareholder and Director, have pledged their entire shareholding in the Company as securities for the loan of HK\$2,000,000 from Kingsway Finance. But, as the aforesaid loan of HK\$2,000,000 from Kingsway Finance (plus accrued interests) was fully and finally repaid on 26th June, 2003, the aforesaid securities pledges of Upflow Holdings Limited and Anthony Neoh have all become fully terminated.
- (ii) Pursuant to an agreement between E-Talent and Kingsway Finance, Kingsway Finance agreed to make available to E-Talent a credit facility of HK\$5,800,000 ("Kingsway Finance Facility"), which was used by E-Talent for on-lending to GDC. Such on-lending loan was novated to the Company on 28th November, 2002. Each of Anthony Neoh and Raymond Neoh and the ultimate beneficial owner of E-Talent has given an irrevocable and unconditional personal guarantee in favour of Kingsway Finance for the repayment of the Kingsway Finance Facility. The guarantee shall continue to be effective until final payment has been made. The repayment of the onlending loan by the Company to E-Talent was made on the Latest Practicable Date.

Advances from Directors, GDC and other advances are unsecured. Other advances represent advances from Shanghai Xin Chang Ning and Zhanjiang Dong Hai, independent third parties not connected with any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them for the purpose of the GEM Listing Rules.

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

The long-term bank loans which are for a term of two years from their respective dates of the loan agreements are guaranteed by GDC, the Company and CICG, which is a third party independent of, and not connected with, any of the directors, chief executive, substantial shareholders or initial management shareholders of the Company or an associate of any of them. CICG provided the guarantees for a fee.

### Securities and guarantees

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

- (i) The loan facility from BOC is guaranteed by GDC and CICG. The guarantee given by GDC shall be effective till two years upon the expiry of the term of the loan from BOC in October 2004, whilst the guarantee given by CICG shall be effective until IDMT has repaid all debts that has incurred under the loan agreement. Each of Raymond Neoh and GDC has given an individual and separate counter-guarantee in favour of CICG for the repayment of all the debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the said loan facility. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CICG ("BOC Asset Pledge") for the repayment of all debts incurred by CICG for which CICG is liable under the guarantee given by it respect of the said loan facility. The counter-guarantee given by Raymond Neoh shall be effective from the date of guarantee until the Listing Date while the counter-guarantee given by GDC and the BOC Asset Pledge provided by GDC China Limited shall continue to be effective until IDMT has repaid all debts it has incurred under the relevant loan agreement.
- (ii) The loan facility from SCB is guaranteed by CICG and will be expired on 21st March, 2005. The guarantee given by CICG shall be effective for three years after the expiry of the loan facility from SCB. Each of Raymond Neoh and the Company has given an individual and separate counter-guarantee in favour of CICG for the repayment of all the debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the said loan facility. Additionally, GDC China Limited has pledged its entire interest in the registered capital of IDMT to CICG ("SCB Asset Pledge") for the repayment of all debts incurred by CICG for which CICG is liable under the guarantee given by it in respect of the said loan facility. The said counter-guarantees given by Raymond Neoh and the Company and the SCB Asset Pledge provided by GDC China Limited shall continue to be effective until IDMT has repaid all debts it has incurred under the relevant loan agreement. In connection with the said loan facility, the Directors confirm that arrangements will be made with a view to releasing the said counter-guarantee given by Raymond Neoh following the listing of the Shares on GEM.
- (iii) The overdraft facility is secured by a pledge of time deposit of approximately HK\$3,120,000.

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

### **Contingent liabilities**

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

### Disclaimers

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

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

# LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Net current assets

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

#### Commitments

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

#### **Debt Securities**

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

# Borrowings and banking facilities

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

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

### TRADING RECORD

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

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

#### Notes:

- 1. During the Track Record Period and the one month ended 31st January, 2002, all of the Group's turnover was derived in the PRC.
- 2. The calculation of loss per Share is based on the consolidated loss for the year/period of approximately HK\$10,317,000 and HK\$17,429,000 for the years ended 31st December, 2001 and 2002 and HK\$1,012,000 and HK\$1,890,000 for the one months ended 31st January, 2002 and 2003 respectively, and on the number of 40,000,000 Shares deemed to be in issue since 1st January, 2001.

### MANAGEMENT DISCUSSIONS AND ANALYSIS

#### For the year ended 31st December, 2001

#### Turnover

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

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

#### Cost of sales

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

### Gross loss

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

#### Other revenue

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

#### Administrative expenses

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

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

- (b) travelling expenses of approximately HK\$763,000 which were incurred for business trips to US, Europe and the PRC for soliciting and negotiation of new projects for the expansion of the digital content distribution and exhibitions business; and
- (c) other administrative expenses mainly comprised depreciation for computer equipment, telecommunications expense and other office expenses incurred for printing, cleaning, security and motor vehicle.

#### Other operating expenses

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

#### Finance costs

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

#### For the year ended 31st December, 2002

#### Turnover

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

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

#### Cost of sales

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

#### Gross loss

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

#### Other revenue

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

#### Administrative expenses

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

- (a) staff costs of approximately HK\$4,829,000 which comprised emoluments paid to an exexecutive director of the Group (Chong Man Nang) and salaries and wages for finance and administration staff. The increase in staff costs was due to the hiring of two senior finance and administration staff in Hong Kong office and Singapore office and four administration staff in IDMT during 2002.
- (b) travelling expenses of approximately HK\$1,668,000 for business trips which included trips to US, Europe and the PRC for the expansion of the digital content distribution and exhibitions business.
- (c) other administrative expenses mainly comprised depreciation for computer equipment, telecommunications expense and other office expenses incurred for printing, cleaning, security and motor vehicle. The increase in general administrative expenses is in line with the increase in business activities in 2002.

#### Other operating expenses

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

#### Finance costs

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

### For the one month ended 31st January, 2003

#### Turnover

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

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

#### Cost of sales

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

#### Gross loss

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

#### Administrative expenses

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

- (a) staff costs of approximately HK\$498,000; and
- (b) other administrative expenses mainly comprised depreciation for computer equipment, telecommunications expenses and other office expenses incurred for printing, cleaning, security and motor vehicle.

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

#### Other operating expenses

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

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

#### Finance costs

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

#### Taxation

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

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

#### **PROPERTY INTERESTS**

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

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

### DIVIDENDS

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

### WORKING CAPITAL

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

#### DISTRIBUTABLE RESERVES

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

### ADJUSTED NET TANGIBLE ASSETS

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

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	ΠΚΦ 000
Consolidated net tangible assets of the Group as at 3	1st January, 2003         3,511
Unaudited loss of the Group for the four months end on unaudited consolidated management accounts o	
Allotment of Shares to Pre-Listing Investors (Note 1)	38,696
Estimated net proceeds of the New Issue (Note 2)	57,765
Adjusted net tangible assets	92,383
Adjusted net tangible asset value per Share (Note 3)	(based on 780,000,000 Shares

in issue and to be issued as mentioned herein) <u>11.84 cents</u>

Notes:

- 1. On 25th and 26th June, 2003, 945,311 Shares and 2,302,681 Shares were allotted to Pre-Listing Investors at an aggregated consideration, net of commission, of approximately HK\$38,696,000.
- 2. The estimated net proceeds of the New Issue referred to in this section represent the estimated gross proceeds of the New Issue of HK\$66,300,000 less the estimated total share issuance costs of HK\$13,000,000 as adjusted for the share issuance costs of HK\$4,465,000 which has been accounted for as a deduction from equity in the consolidated accounts of the Group as at 31st January, 2003 (note 25 in the section headed "Notes to the financial information" in the accountants' report in appendix I to this prospectus).
- 3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section but it takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and/or the Sotas Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed "Resolutions of the Shareholders passed at the Company's special general meeting held on 18th July, 2003" in appendix V to the prospectus.

### RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

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

### NO MATERIAL ADVERSE CHANGE

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

### FOREIGN EXCHANGE RISK

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

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

### **OVERALL BUSINESS OBJECTIVE**

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

### **BUSINESS STRATEGIES**

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

### (i) CG creation and production

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

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

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

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

### Establish a merchandising arm

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

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

#### Operate a game development and publication base

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

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

#### Operate a magazine and comics base

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

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

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

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

### (ii) Digital content distribution and exhibitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# IMPLEMENTATION SCHEDULE

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

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

# CG creation and production

Complete *Thru the Moebius Strip* production and premier

Sign up a US distributor for *Thru* the Moebius Strip

Pre-sell *Thru the Moebius Strip* to markets other than the US

Set up a merchandising arm and begin licensing of merchandise in the PRC market and other target markets

Issue beta version of *Thru the Moebius Strip* on-line game in Greater China

Begin development of prototype of the *Thru the Moebius Strip* and *Sandman* console games in the US with Equinoxe

Publish first issue of CG, games and digital cinema print and emagazine

Recruit around 50 digital artists from graduates of the 3rd CG training course

Finalise agreements with WAMC, Inc. for production of the first 26 episodes of *The New Adventures* of Raggedy Ann and Andy and that of Panshel, the Flying Panda and commence their preproduction

Finalise the agreement for the featured film *Bit and Byte* and commence pre-production

Finalise the appointment of Overseas Chinese Town as merchandising agent of the Company in the PRC

# Digital content distribution and exhibitions

Supply digital cinema equipment to Adlabs

Sign up around 50 and 25 cinemas in the PRC and the rest of Asia respectively for the supply of digital projection and playback equipment

Keep in close touch with SMPTE Committee DC 28 and work on compliance

Market digital cinema in Singapore and Hong Kong

Begin planning for digital cinema advertising operations

Complete BDC evaluation of the Group's digital cinema equipment

Set up at least 1 digital cinema demonstration site in the US

Continue with research and development of the evolving digital cinema technology and specification

# Provision of CG training courses

Set up CG training school in Shanghai and recruit students

Commence the CG training courses in Shanghai, the PRC

Commence the 4th CG training course in Shenzhen, the PRC

### CG creation and production

Digital content distribution and exhibitions

Provision of CG training courses

Begin pre-production of sequel to *Thru the Moebius Strip* 

Issue first comics based on *Thru* the Moebius Strip

Begin development of next online game and localization of Korean and Japanese games

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

CG creation and production	Digital content distribution and exhibitions	Provision of CG training courses
Launch localized Korean and Japanese on-line games in Greater China market	11 0 0	Continue to run the CG training courses in Shenzhen and Shanghai, the PRC
Complete development of <i>Thru</i> the Moebius Strip and Sandman console games for publisher	Continue with research and development for interactive digital cinema	
Begin development of next prototypes	Sign up around 80 digital cinemas in the PRC and rest of Asia, such as Singapore and Hong Kong	
Market DVDs for <i>Thru the</i> Moebius Strip		
Complete <i>The New Adventures of</i> <i>Raggedy Ann &amp; Andy</i> series and begin work on next series		
Begin production of sequel of		

Thru the Moebius Strip

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

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

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

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

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

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

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

### **BASES AND ASSUMPTIONS**

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

### **General assumptions**

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

### Specific assumptions

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

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

# **REASONS FOR THE NEW ISSUE AND USE OF PROCEEDS**

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

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

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

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

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

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

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

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

#### Warning:

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

# UNDERWRITERS

CM-CCS, Quest Stockbrokers (HK) Limited, Tai Fook Securities Company Limited, CSC Securities (HK) Limited, Crosby Limited, Quam Securities Company Limited, Chun Yick Securities Limited, Asia Investment Capital, First Asia Finance Group Limited, Sanfull Securities Limited, DL Brokerage Limited, Hong Tong Hai Securities Limited and Partners Capital International Limited.

### UNDERWRITING ARRANGEMENTS AND EXPENSES

### **Underwriting agreement**

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing, on and subject to terms and conditions of the Prospectus at the Issue Price. The Company is also offering the Public Offer Shares for subscription by members of the public in Hong Kong subject to the terms and conditions of this prospectus and the Application Forms at the Issue Price.

Subject to the GEM Listing Committee granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein, and to certain other conditions as set out in the Underwriting Agreement, the Underwriters have agreed severally to subscribe or procure subscribers, on the terms and conditions of this prospectus and the Application Forms, for their respective applicable proportions of the New Shares initially being offered and which are not taken under the New Issue.

#### Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Shares under the New Issue will be subject to termination by notice in writing from the Sponsor (on behalf of the Lead Manager and the Underwriters) if any of the following events occur prior to 9:00 a.m. (Hong Kong time) on the Despatch Date:

- 1. If there develops, occurs or comes into force:
  - (A) any event, or series of events (including, without limitation, matters or circumstances concerning or relating to acts of government, strikes, lock-outs, fire, explosion, flood, civil commotion, acts of war or terrorism, acts of God, interruption or delay in transportation); or
  - (B) any change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, market conditions or sentiments and matters and/or disasters (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange) in Hong Kong, the PRC or any other relevant jurisdiction; or
  - (C) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, or any other jurisdiction relevant to the Company; or
  - (D) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, or any other relevant jurisdiction; or

## UNDERWRITING

- (E) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the US or by the European Union (or any member thereof) on PRC; or
- (F) any litigation or claim of material importance of any third party being threatened or instigated against the Company,

which will or may, in the sole and absolute opinion of the Sponsor (on behalf of the Lead Manager and the Underwriters), be materially adverse to or materially affect business, financial or other conditions or prospects of the Group and/or the New Issue or the success thereof or which makes it inadvisable or inexpedient to proceed with the New Issue.

- 2. If there has come to the notice of the Sponsor:
  - (A) that any statement, considered by the Sponsor (on behalf of the Lead Manager and the Underwriters) in its sole and absolute opinion to be material, contained in this prospectus was when the prospectus was issued, or has become, untrue, incorrect or misleading in any respect; or
  - (B) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sponsor (on behalf of the Lead Manager and the Underwriters) in its sole and absolute opinion to be material; or
  - (C) any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than on any of the Underwriters or the Sponsor); or
  - (D) any adverse change in the business or in the financial or trading position of the Company which is material in the sole and absolute opinion of the Sponsor (on behalf of the Lead Manager and the Underwriters) in the context of the New Issue; or
  - (E) any event, act or omission which gives or is likely to give rise to any material liability of any of the Company, or the executive Director pursuant to the indemnities contained in the Underwriting Agreement; or
  - (F) any breach, considered by the Sponsor (on behalf of the Lead Manager and the Underwriters) in its sole and absolute opinion to be material, of the representations, warranties and undertakings given by the Company, or the executive Director contained in the Underwriting Agreement.

Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement (where applicable), he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/ it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an

### UNDERWRITING

agreement to do any of the foregoing) in any shares in any company controlled by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Initial Management Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if he/it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), he/it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when he/it receives indications, either oral or written, from the pledgee or chargee that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by him or it will be or has been disposed of, he/it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

Each of the Significant Shareholders has undertaken to the Stock Exchange, the Company, the Sponsor, the Lead Manager and the Underwriters that, save as permitted under the GEM Listing Rules and subject to the provisions of the Underwriting Agreement, he/it shall not, and shall procure that none of his/its associates, nominees or trustees holding in trust for him/it shall, during a period of 12 months immediately following the Listing Date; (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of Shares) in respect of any of the Shares beneficially owned by him/it or his/its associates, nominees or trustees after the completion of the New Issue and the Capitalization Issue; or (b) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company controlled by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Shares.

Each of the Significant Shareholders has further undertaken to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that during the period of 12 months immediately following the Listing Date; (a) if he/it pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules), he/it shall give prior written notice to the Company and the Lead Manager of such pledges or charges together with the number of securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or Lead Manager may reasonably require; (b) when he/it receives indications, either oral or written, from the pledgee or chargee that any relevant securities (as defined in the GEM Listing Rules) pledged or charged by him or it will be or has been disposed of, he/it will immediately inform the Company and the Lead Manager in writing of such indications of disposal; and (c) that he/it will place his/its Shares in escrow, with an escrow agent on terms acceptable to the Stock Exchange.

#### **Commission and expenses**

The Underwriters will receive a commission of 3.75% of the aggregate Issue Price of all the Shares under the New Issue, out of which they will pay any sub-underwriting commission, and the Sponsor will in addition receive a financial advisory fee and a documentation fee in relation to the New Issue. Such fees and commission, together with the GEM listing fees, brokerage, the Stock Exchange trading fee, SFC

## UNDERWRITING

transaction levy and investor compensation levy, legal and other professional fees, printing and other expenses relating to the New Issue are estimated to be approximately HK\$13 million and are to be borne by the Company.

#### Underwriters' interest in the Company

Save as provided for under the Underwriting Agreement and disclosed otherwise in this prospectus, none of the Underwriters has any shareholding interests in the Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares.

## STRUCTURE AND CONDITIONS OF THE NEW ISSUE

### PRICE PAYABLE ON SUBSCRIPTION

The Issue Price of HK\$1.0 per Share plus a 1% brokerage, a 0.005% transaction levy and 0.002% investor compensation levy imposed by SFC and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,020.24 for each board lot of 2,000 Shares.

### THE NEW ISSUE

The New Issue comprises (i) the Public Offer, being an offer to the public for subscription of 8,000,000 New Shares, payable in full on application; and (ii) the Placing, being a placing of initially 58,300,000 New Shares, in each case at the Issue Price. The 66,300,000 Shares being offered under the New Issue represent 8.5% of the Company's enlarged issued share capital immediately after completion of the New Issue and the Capitalization Issue.

The Public Offer Shares and the Placing Shares are fully underwritten by the Underwriters subject to conditions set forth under "Underwriting Agreement" in the section headed "Underwriting" in this prospectus.

References in this prospectus as to applications, application forms, application money or to the procedure for application relate solely to the Public Offer.

#### **Public Offer**

The Public Offer Shares initially offered under the Public Offer, totalling 8,000,000 Shares, will represent approximately 1.0% of the share capital of the Company immediately following completion of the New Issue and Capitalization Issue but before the exercise of the Sotas Option, subject to reallocation as mentioned in this section. The levels of application for the Public Offer Shares will be announced in the The Standard (in English) and the Hong Kong Economic Times (in Chinese) on or before 31st July, 2003.

The Public Offer is open to all members of the public in Hong Kong. The Public Offer will be subject to the conditions stated in the sub-section headed "Conditions of the New Issue" in this section.

The Public Offer is fully underwritten by the Underwriters subject to terms and conditions of the Underwriting Agreement.

Applicants under the Public Offer are required to pay on application the Issue Price, together with brokerage of 1%, SFC transaction levy and investor compensation levy of 0.005% and 0.002% respectively and Stock Exchange trading fee of 0.005% thereon.

The Public Offer Shares will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares. When there is a full or over subscription of Public Offer Shares, allocation of Public Offer Shares will be solely based on the level of valid applications received. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicants, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allocated more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the balloting may not receive any Public Offer Shares.

## STRUCTURE AND CONDITIONS OF THE NEW ISSUE

#### Placing

The Company is initially offering 58,300,000 New Shares for subscription at the Issue Price by way of the Placing. The Placing Shares represent approximately 7.5% of the share capital of the Company immediately following completion of the New Issue and Capitalization Issue but before the exercise of the Sotas Option, subject to reallocation as mentioned in this section. The Placing is fully underwritten by the Underwriters subject to terms and conditions of the Underwriting Agreement.

Pursuant to the Placing, the Lead Manager or agents nominated by it, on behalf of the Company, will conditionally place the Placing Shares with investors in Hong Kong. The Placing mainly will target institutional and private investors who generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares are unlikely to be allotted to individual retail investors in Hong Kong, who are expected to subscribe for the Public Offer Shares. Investors purchasing the Placing Shares are also required to pay a brokerage of 1%, a SFC transaction levy of 0.005%, an investor compensation levy of 0.002% and a Stock Exchange trading fee of 0.005% of the Issue Price.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the listing of the Shares on the GEM. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its shareholders as a whole. Completion of the Placing is conditional on the fulfillment of the conditions stated in the section headed "Conditions of the New Issue" of this prospectus.

#### REALLOCATION

The Lead Manager may, in its absolute discretion, relocate the number of Shares under the Public Offer and the Placing on the following basis:

- (a) if the number of Shares validly applied for under the Public Offer exceeds 120,000,000 Shares (being 15 times the number of Public Offer Shares initially available for subscription under the Public Offer) but is not more than 400,000,000 Shares, then the number of Shares to be allocated for subscription under the Public Offer from the Placing will be 11,890,000 Shares so that a total of 19,890,000 Shares will be available under the Public Offer, representing 30% of the New Shares available under the New Issue; and
- (b) if the number of Shares validly applied for under the Public Offer exceeds 400,000,000 Shares (being 50 times the number of Public Offer Shares initially available for subscription under the Public Offer) but is not more than 800,000,000 Shares, then the number of Shares to be allocated for subscription under the Public Offer from the Placing will be 18,520,000 Shares so that a total of 26,520,000 Shares will be available under the Public Offer, representing 40% of the New Shares available under the New Issue; and
- (c) if the number of Shares validly applied for under the Public Offer exceeds 800,000,000 Shares (being 100 times the number of Public Offer Shares initially available for subscription under the Public Offer), then the number of Shares to be allocated for subscription under the Public Offer from the Placing will be 25,150,000 Shares so that a total of 33,150,000 Shares will be available under the Public Offer, representing 50% of the New Shares available under the New Issue.

## STRUCTURE AND CONDITIONS OF THE NEW ISSUE

In the event of a reallocation of Shares from the Placing to the Public Offer, the allocations to placees under the Placing will be reduced accordingly.

In addition, if the Public Offer Shares are not fully subscribed under the Public Offer, the Lead Manager may, in its absolute discretion, reallocate to the Placing all or any unsubscribed Public Offer Shares in such number as it may consider appropriate to satisfy demand under the Placing.

#### CONDITIONS OF THE NEW ISSUE

Acceptance of your applications is conditional upon:

#### (a) Listing

The GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and/or the Sotas Option or the general mandate to issue Shares referred to in appendix V to this prospectus; and

#### (b) Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sponsor on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise prior to 9:00 a.m. on the Despatch Date). Details of the Underwriting Agreement, their conditions and grounds for termination, are set out in the section headed "Underwriting" of this prospectus.

If the conditions referred to above are not fulfilled on or before the 30th day from the date of this prospectus, your application money will be returned to you, without interest. The terms on which your application money will be returned to you are set out under the heading "Refund of your money" on the Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving bank or other bank(s) licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares or such other date as determined by HKSCC.

### WHICH APPLICATION FORM TO USE

Use a WHITE Application Form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant maintained in CCASS.

*Note:* The Public Offer Shares are not available to any existing beneficial owner of the Shares, Directors, the Initial Management Shareholders or associates of any of them.

### WHERE TO COLLECT THE APPLICATION FORMS

You can collect a WHITE Application Form and a prospectus from:

### Any member of the Stock Exchange, or any of the following firms

### Asia Investment Capital Limited

Units 1402–3, 14th Floor China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Hong Kong

### Kingsway Capital Limited 5th Floor Hutchison House 10 Harcourt Road Central Hong Kong

## Tai Fook Securities Company Limited

23rd–26th Floor, New World Tower I 16–18 Queen's Road Central Hong Kong

### **Crosby Limited**

2701 Citibank Tower 3 Garden Road Central Hong Kong

### **Chun Yick Securities Limited**

10th Floor, Wings Building 110–116 Queen's Road Central Hong Kong

### **CM-CCS Securities Limited**

26th Floor, World Wide House 19 Des Voeux Road Central Hong Kong

### Quest Stockbrokers (HK) Ltd.

2302 & 24th Floor, Onfem Tower 29 Wyndham Street Central Hong Kong

### CSC Securities (HK) Limited

Unit 3204–7, Cosco Tower 183 Queen's Road Central Hong Kong

### **Quam Securities Company Limited**

Room 3308, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong

### First Asia Finance Group Limited

Room 1502, 15th Floor World Wide House 19 Des Voeux Road Central Hong Kong

#### 

**Sanfull Securities Limited** 20th Floor, Far East Consortium Building

121 Des Voeux Road Central Hong Kong

#### Hong Tong Hai Securities Limited

Units 3606, 36th Floor, China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Sheung Wan Hong Kong

#### **DL Brokerage Limited**

1st Floor, Wing's Building 110–116 Queen's Road Central Hong Kong

#### Partners Capital International Limited

1305, 13th Floor 9 Queen's Road Central Hong Kong

or any of the following branch or sub-branches of Hang Seng Bank:

Hong Kong Island:	Head Office Central District Branch Causeway Bay Branch Wanchai Branch	83 Des Voeux Road Central Basement, Central Building, Pedder Street 28 Yee Wo Street 200 Hennessy Road
Kowloon:	Kowloon Main Branch Tsimshatsui Branch Kwun Tong Branch Mongkok Branch	618 Nathan Road 18 Carnarvon Road 70 Yue Man Square 677 Nathan Road
New Territories:	Chung On Street Branch Shatin Branch Sheung Shui Branch	38 Chung On Street Shop 18 Lucky Plaza, Wang Pok Street 53 San Hong Street

You can collect a YELLOW Application Form and a prospectus from:

Hong Kong Securities Clearing Company Limited Depository Counter 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong

### Hong Kong Securities Clearing Company Limited Customer Services Centre Upper Ground Floor V-Heun Building 128–140 Queen's Road Central Hong Kong

or your stockbroker may have forms available.

### HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Sponsor (on behalf of the Underwriters), in consultation with the Company, or its agent may accept it at its discretion, and subject to any conditions it thinks fit, including evidence of the authority of your attorney. The Sponsor in consultation with the Company, has full discretion to reject or accept any application, in full or in part, without assigning any reason.

### HOW MANY APPLICATIONS MAY YOU MAKE

### There are only one situation where you may make more than one application for Shares:

If you are a **nominee**, you may lodge more than one application in your own name on behalf of different owners. In the box on the Application Form marked "For nominees", you must include

- (i) an account number; or
- (ii) some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

#### Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you give a warranty to the following effect that:

- no other application is made for your benefit by you or by anyone applying as your agent or by any other person, if the application is made for your benefit; and
- if the application is made by you as agent for the benefit of another person, no other application is being made by you as agent for or for the benefit of that person or by that person or by other person as agent for that person; and you have due authority to sign the application as agent for the person who is to benefit from the application.

All of your application will be rejected as multiple applications if you, or you and joint applicants together:

- make more than one application on a WHITE or YELLOW Application Form; or
- apply on one **WHITE** or **YELLOW** Application Form for more than 100% of the Shares being offered for public subscription initially available in either pool A or pool B as referred to in the paragraph "Public Offer" in this section.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**. If an application is made by an *unlisted company* and

- the only business of that company is dealing in securities; and
- you exercise *statutory control* over that company, then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange or the GEM.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### HOW MUCH FOR THE PUBLIC OFFER SHARES

The Issue Price is HK\$1.00 per Share. You must also pay the brokerage of 1%, a SFC transaction levy of 0.005% and investor compensation levy of 0.002% and a Stock Exchange trading fee of 0.005% on application. This means that for every 2,000 Shares you will pay HK\$2,020.24. The Application Forms have tables showing the exact amount payable for multiples of Shares.

You must pay the Issue Price, brokerage and the Stock Exchange trading fee in full when you apply for the Shares. Your payment must be by cheque or banker's cashier order and must comply with the terms of the Application Forms. Your cheque or banker's cashier order will not be presented for payment before 28th July, 2003.

If your application is successful, brokerage is paid to members of the Stock Exchange, and the trading fee is paid to the Stock Exchange.

### MEMBERS OF THE PUBLIC — LATEST TIME FOR APPLICATION OF NEW SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment in Hong Kong Dollars for the full amount payable on application attached, must be lodged by 12:00 noon on Monday, 28th July, 2003 or if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with payment in Hong Kong Dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any of the branch or sub-branches of Hang Seng Bank listed under the paragraph headed "Where to collect the application forms" above at the following times:

Wednesday, 23rd July, 2003	—	9:00 a.m. to 4:00 p.m.
Thursday, 24th July, 2003	—	9:00 a.m. to 4:00 p.m.
Friday, 25th July, 2003	—	9:00 a.m. to 4:00 p.m.
Saturday, 26th July, 2003	—	9:00 a.m. to 12:00 noon
Monday, 28th July, 2003	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 28th July, 2003.

### EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal

in force at any time between 9:00 a.m. and 12:00 noon on Monday, 28th July, 2003. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

#### CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following two situations in which Public Offer Shares will not be allotted to you.

#### If your application is revoked:

By completing an Application Form, you agree that you cannot revoke your application before the fifth day after the time of the opening of the application lists. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of the Company agreeing that, it will not offer any Public Offer Shares to any person before 4th August, 2003 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked. Acceptance of application will be constituted by notification to the press of the basis of allocation and, where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to satisfaction of such conditions or the results of such ballot, respectively.

#### If the allotment of Public Offer Shares is void:

Your allotment of Public Offer Shares will be void if the GEM Listing Committee does not grant permission to list the Public Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the GEM Listing Committee notifies the Company of that longer period within three weeks of the closing of the lists.

#### PUBLICATION OF RESULTS

The Company expects to release an announcement on the Issue Price, the level of interest in the Placing, results of applications in respect of Public Offer and basis of allotment of Shares under the New Issue, and the number of Shares, if any, reallocated between the Placing and the Public Offer on or before 31st July, 2003 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the GEM website.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on Monday, 4th August, 2003.

Shares will be traded in board lots of 2,000 Shares each.

# COLLECTION/POSTING OF SHARE CERTIFICATE(S)/REFUND CHEQUE AND DEPOSIT OF CERTIFICATES INTO CCASS

WHITE application form:

If you have applied for 1,000,000 Public Offer Shares or more and have indicated on your application form that you will collect Share certificate(s) and/or refund cheque, you may collect it/ them in person from:

#### **Standard Registrars Limited**

G/F, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong

Share certificate(s) and refund cheque will be available for collection between 9:00 a.m. and 1:00 p.m. on 1st August, 2003.

You must show your identification document to collect your Share certificate(s) and/or refund cheque.

If you do not collect your Share certificate(s) and/or refund cheque, if any, they will be sent to the address on your application form shortly after the despatch, by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your application form that you will collect your Share certificate(s) and/or refund cheque in person, or if you have applied for less than 1,000,000 Public Offer Shares, then your Share certificate(s) and/or refund cheque, if any, will be sent to the address on your application form by ordinary post and at your own risk on the date of despatch.

#### YELLOW application form:

Your Share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on Friday, 1st August, 2003, or any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than an investor participant) for Public Offer Shares credited to the stock account of your designated CCASS participant (other than an investor participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

If you are applying as an investor participant, the Company will publish the results of investor participants' applications together with the results of the New Issue in the newspapers on Thursday, 31st July, 2003. You should check against the announcement published by the Company and report

any discrepancies to HKSCC before 12:00 noon on Friday, 1st August, 2003 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. On 2nd August, 2003 (the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System (under the procedures contained in HKSCC's "Investor Account Guide — Investor Participation" in effect from time to time). HKSCC will also mail to you an Activity Statement showing the number of Public Offer Shares credited to your stock account.

If you have indicated on your application form that you will collect your refund cheque(s) in person, please follow the instruction set out under the paragraph headed "WHITE application form" above.

### SHARES WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in the prospectus and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between members of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

## SPONSOR'S INTEREST

Set out below are the details concerning the interests which the Sponsor, its directors and employees and their associates have in relation to the Group and the successful outcome of the listing of the Shares:

- (i) advisory fees for providing advisory services and for acting as the Sponsor to the New Issue and documentation fees to be paid by the Company,
- (ii) the interest under the Sponsor's agreement between the Sponsor and the Issuer whereby Sponsor to be retained as the Sponsor of the Company for the reminder of the financial year of the Company ending 31st December, 2003 and for a period of two years thereafter expiring 31st December, 2005 for a fee,
- (iii) certain associates of the Sponsor, whose ordinary businesses involve the trading and dealing in securities, may be involved in the trading and dealing in the securities of the Company,
- (iv) certain associates of the Sponsor, whose ordinary businesses involve direct investment and portfolio management, may purchase or sell securities of the Company or hold them for investment purposes upon the listing of the Company,
- (v) the Sponsor as one of the Underwriters will receive an underwriting commission on the relevant funds underwritten under the Public Offer, and
- (vi) An associate of the Sponsor and the Lead Manager are entitled to finder's fees (representing an arranger's fee) at the rate of 3.75% on the total funds raised from the Pre-Listing Investors on a successful basis.

No director or employee of the Sponsor who involved in providing advice to the Company has or may, as a result of the New Issue, have any interests in any class of securities of the Company or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.

None of the directors or employees of the Sponsor has a directorship in the Company or any other company in the Group.

### ACCOUNTANTS' REPORT

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.

PRICEWATERHOUSE COPERS 🛛

羅兵咸永道會計師事務所

PricewaterhouseCoopers 22nd Floor, Prince's Building Central, Hong Kong Telephone (852) 2289 8888 Facsimile (852) 2810 9888

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.

## ACCOUNTANTS' REPORT

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.

## ACCOUNTANTS' REPORT

### 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 e 31st Dec		One mont 31st Jar	
	Section V Note	<b>2001</b> <i>HK\$</i> '000	<b>2002</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$</i> '000	<b>2003</b> <i>HK\$</i> '000
Turnover	3	2,240	2,306	199	240
Cost of sales		(3,069)	(3,228)	(235)	(286)
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		(1,761)	(3,089)	(221)	(253)
Operating loss	5	(10,235)	(15,633)	(991)	(1,444)
Finance costs	6	(82)	(1,796)	(21)	(446)
Loss for the year/ period	8	(10,317)	(17,429)	(1,012)	(1,890)
Loss per share Basic	12	(25.79 cents)	(43.57 cents)	(2.53 cents)	(4.73 cents)
Diluted		N/A	N/A	N/A	N/A

#### 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:

		As	As at	
	Section V	31st De 2001	cember, 2002	31st January, 2003
	Note	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Fixed assets	14	24,861	28,160	27,981
Current assets	17	17.046	12 564	45 (10
Production work in progress Trade receivables	17 18	17,946	43,564 69	45,619 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 Advances from a Director	21	811 308	1,122 598	903 1,538
Advances from an officer	21		3,300	800
Advances from a shareholder Current portion of long-term	21	—	12	12
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 Long-term liabilities	22 26	1,738	11,746 21,975	11,777 22,748
Amounts due to Global Digital Creations Limited	27	10,928		
Crownon's Emittou	<i>_ ,</i>		20.140	20.026
		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:

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

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 e 31st Dec		One mont 31st Jar	
	Section V	2001	2002	2002	2003
	Note	HK\$'000	HK\$'000	HK\$'000	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		27,278	5,427	26,309	3,511

### 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 en 31st Dece 2001 HK\$'000		One mont 31st Jan 2002 HK\$'000	
Cash flows from operating activities					
Loss for the year/period Adjustments for:		(10,317)	(17,429)	(1,012)	(1,890)
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 Loss on disposal of fixed assets		82 141	1,413 1	21	410
x					<u> </u>
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)	(1,137) (1,622)
Increase in trade receivables		(0,501)	(69)		(1,022)
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 Increase in advances from a shareholder		—	3,300 12		(2,500)
(Decrease)/increase in training fees received in			12		
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	(10.005)		(5.11)
Purchase of fixed assets Interest received		(13,847) 12	(10,085) 22	(121) 2	(541)
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		50,008	(1,233)	2,905	(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:

- 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.

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## ACCOUNTANTS' REPORT

#### (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:

- 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.

#### (1) 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,			onth ended January,
	<b>2001</b> <i>HK\$</i> '000	<b>2002</b> <i>HK\$</i> '000	<b>2002</b> <i>HK\$</i> '000	<b>2003</b> <i>HK\$</i> '000
Turnover				
Training fees Box office receipts from distribution of digital	2,240	2,052	199	228
motion pictures	—	151		_
Rental income from equipment leasing Franchise fee from digital cinema for use of	_	55	_	6
equipment		48		6
Other revenue	2,240	2,306	199	240
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 <i>HK\$</i> '000	Digital content distribution and exhibitions HK\$'000	CG training courses HK\$'000	Corporate HK\$'000	<b>Total</b> <i>HK</i> \$'000		
Turnover			2,240		2,240		
Segment results	(2,307)	(4,111)	(1,342)		(7,760)		
Other revenue Unallocated costs					12 (2,487)		
Operating loss Finance costs					(10,235) (82)		
Loss for the year					(10,317)		
Segment assets Unallocated assets	36,328	990	5,919		43,237 1,792		
Total assets					45,029		
Segment liabilities Unallocated liabilities	1,833	1	1,613		3,447 14,304		
Total liabilities					17,751		
Capital expenditure Depreciation	10,488 1,847	1,164 	1,796 1,484	691 68	14,139 3,632		

## ACCOUNTANTS' REPORT

CG creation and production <i>HK\$</i> '000	Digital content distribution and exhibitions HK\$`000	CG training courses HK\$'000	Corporate HK\$'000	<b>Total</b> <i>HK\$'000</i>
	254	2,052		2,306
(3,515)	(8,285)	(1,189)		(12,989)
			-	22 (2,666)
			-	(15,633) (1,796)
			=	(17,429)
62,859	4,645	5,658	-	73,162 8,767
			=	81,929
2,088	501	1,551	-	4,140 72,362
			=	76,502
5,437 4,242 71	4,338 893	176 1,524	134 126	10,085 6,785 71
	One month en	ded 31st Janua	ry, 2002	
CG creation and production <i>HK\$</i> '000	distribution	CG training courses HK\$'000	Corporate HK\$'000	<b>Total</b> <i>HK\$</i> '000
		199		199
(247)	(478)	(48)		(773)
			-	2 (220)
			-	(991) (21)
			=	(1,012)
36,819	1,101	6,824	-	44,744 1,416
			=	46,160
1,875	_	1,175	-	3,050 16,802
1,875	_	1,175	-	
	and production HK\$'000 (3,515) (3,515) (3,515) (2,859 2,088 5,437 4,242 71 CG creation and production HK\$'000 (247)	Digital content distribution and production HK\$'000         Digital content distribution and exhibitions HK\$'000	Digital content distribution and production HK\$'000         CG training courses HK\$'000	CG creation and production HK\$'000         distribution HK\$'000         CG training courses HK\$'000         Corporate HK\$'000

## ACCOUNTANTS' REPORT

	One month ended 31st January, 2003						
	CG creation and production <i>HK\$</i> '000	Digital content distribution and exhibitions HK\$'000	CG training courses HK\$'000	Corporate HK\$'000	<b>Total</b> <i>HK\$</i> '000		
Turnover		12	228		240		
Segment results	(312)	(805)	(53)		(1,170)		
Other revenue Unallocated costs					(274)		
Operating loss Finance costs					(1,444) (446)		
Loss for the period					(1,890)		
Segment assets Unallocated assets	64,418	5,091	5,678		75,187 3,057		
Total assets					78,244		
Segment liabilities Unallocated liabilities	281	322	1,314		1,917 72,816		
Total liabilities					74,733		
Capital expenditure Depreciation Amortization	106 448 <u>36</u>	386 126	49 135 	11	541 720 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					
	<b>Turnover</b> <i>HK</i> \$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000		
Hong Kong China mainland	2,240	(4,373) (3,387)	12,597 30,640	1,613 12,526		
	2,240			14,139		
Other revenue Unallocated costs		12 (2,487)				
Operating loss		(10,235)				
Unallocated assets			1,792			
Total assets			45,029			

## ACCOUNTANTS' REPORT

		Year ended 31st	December, 2002	
		Segment	Segment	Capital
	Turnover	results	assets	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
	2,306			10,085
Other revenue		22		
Unallocated costs		(2,666)		
Operating loss		(15,633)		
Unallocated assets			8,767	
Total assets			81,929	
	0	one month ended 3		
	-	Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	_	(498)	12,683	78
China mainland	199	(275)	32,061	43
	199			121
Other revenue		2		
Unallocated costs		(220)		
Operating loss		(991)		
Unallocated assets			1,416	
Total assets			46,160	
	0	ne month ended 3	1st January, 200	
		Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	_	(893)	28,174	395
China mainland	240	(277)	47,013	146
	240			541
Other revenue		_		
Unallocated costs		(274)		
Operating loss		(1,444)		
Unallocated assets			3,057	
Total assets			78,244	

## ACCOUNTANTS' REPORT

### (5) Operating loss

	Year ended 31st December,		One month ended 31st January,	
	<b>2001</b> <i>HK\$</i> '000	<b>2002</b> <i>HK</i> \$'000	<b>2002</b> <i>HK\$</i> '000	<b>2003</b> <i>HK\$</i> '000
Operating loss is stated after crediting and charging the following:				
Crediting —				
Exchange gain, net	_	—	_	21
Charging —				
Auditors' remuneration	135	122	7	7
Depreciation (note a)	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				
(note b)	1,040	1,075	76	87
Research and development costs (note c)	1,152	2,232	175	274
Staff costs (note c)	3,908	5,361	365	549

Notes:

		Year ended 31st December,		One month ended 31st January,	
		<b>2001</b> <i>HK\$</i> '000	<b>2002</b> <i>HK\$</i> '000	<b>2002</b> HK\$'000	<b>2003</b> <i>HK\$</i> '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 (note 9)	231	780	62	91
		10,644	24,128	1,846	2,162
	Less: amounts included in production work in progress amounts included in research and	(5,584)	(16,535)	(1,306)	(1,339)
	development costs	(1,152)	(2,232)	(175)	(274)
		3,908	5,361	365	549

## ACCOUNTANTS' REPORT

#### (6) Finance costs

	Year ended 31st December,		One month ended 31st January,	
	2001	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
	82	1,796	21	446
Taxation				

## (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,	
	<b>2001</b> <i>HK\$</i> '000	<b>2002</b> <i>HK\$</i> '000	<b>2002</b> <i>HK\$</i> '000	<b>2003</b> <i>HK\$</i> '000
Loss for the year/period	(10,317)	(17,429)	(1,012)	(1,890)
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	590	1,297		
Taxation				

#### (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 D	ecember,	31st Jan	uary,
	2001	2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	_	_	_	_
Salaries	2,560	2,760	230	100
Allowances and benefits in kind	550	635	53	28
Retirement scheme contributions	21	24	2	1
	3,131	3,419	285	129

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 ende	d	One month ended 31st January,		
	31st Decemb	oer,			
	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	1	2			

## ACCOUNTANTS' REPORT

(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,		ended 1ary,
	2001	2001 2002	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors	3,131	3,419	285	129
Employees	1,376	2,346	273	469
	4,507	5,765	558	598

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 31st Jan			
	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	13			2		
	1,376	2,346	273	469		

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	3	3	3	4

(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.

## ACCOUNTANTS' REPORT

- (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							
	Furniture,							
	Leasehold improvements	fixtures and equipment	Computer equipment	Motor vehicle	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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			

## **ACCOUNTANTS' REPORT**

	Group Year ended 31st December, 2002					
	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Digital film encoders and servers HK\$'000	Motor vehicle HK\$'000	<b>Total</b> <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					
	Furniture, Leasehold fixtures and Compute		Computer	Digital film encoders Motor		
	improvements HK\$'000	equipment HK\$'000	equipment HK\$'000	and servers HK\$'000	vehicle HK\$'000	<b>Total</b> <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

# ACCOUNTANTS' REPORT

#### (15) Investment in a subsidiary

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

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 31st December,			th ended inuary,
	2001 HK\$'000	<b>2002</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>	<b>2003</b> <i>HK</i> \$'000
Results				
Turnover, net of business tax Box office receipts from distribution of		116		
digital motion pictures Franchise fee from digital cinema for use of equipment		116 48		6
Cost of sales — depreciation		164 (64)		6 6
Group's share of profit/(loss) for the year/period		100		(2)
		As at	Group	As at
		As an 31st Decer 2001 HK\$'000		As at 31st January, 2003 <i>HK</i> \$'000
Net assets				
Assets Fixed assets — digital film encoder and server		_	894	885
Trade receivables			50	57
Liabilities		—	944	942
Other payables and accrued charges				
			944	942

# ACCOUNTANTS' REPORT

#### (17) Production work in progress

		Group			
	As	As at 31st December,			
	31st Dec				
	2001	2002	2003		
	HK\$'000	HK\$'000	HK\$'000		
Production costs incurred, at cost	17,946	43,564	45,619		

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 a	As at		
	31st Dece	mber,	31st January,	
	2001	2002	2003	
	HK\$'000	HK\$'000	HK\$'000	
Within three months	_	38	50	
Three to six months	_	19	19	
Over six months		12	12	
		69	81	

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 is 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 a	As at		
		31st Dece	ember,	31st January,	
		2001	2002	2003	
	Note	HK\$'000	HK\$'000	HK\$'000	
Repayable within one year:					
Sotas Limited	(a)	_	7,600	7,600	
Mr. Richard Yingneng Yin	(b)		300	300	
		_	7,900	7,900	
Repayable later than one year:					
Mr. Anthony Francis Neoh	(c)		11,746	11,777	
			19,646	19,677	

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:

		Group			
		As at			
		31st Decen	mber,	31st January,	
		2001	2002	2003	
	Note	HK\$'000	HK\$'000	HK\$'000	
Kingsway SW Finance Limited	(a)		1,700	1,700	
Mr. William Ka Chung Lam	(b)	_	1,000	1,000	
E-Talent Investments Limited	(c)		5,800	5,800	
			8,500	8,500	

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 l	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)	1,190,000,000	11,900
At 31st December, 2002		1,200,000,000	12,000
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)	30,000,000	300
At 31st December, 2002 and 31st January, 2003		40,000,000	400

# ACCOUNTANTS' REPORT

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	Share		Statutory		
	surplus	issuance	Accumulated	reserve	Exchange	
	(note a)	costs	losses	(note b)	reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	40,271		(13,398)		5	26,878
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	40,271	(4,465)	(31,242)	415	48	5,027
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	40,271		(14,410)		48	25,909
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	40,271	(4,465)	(33,132)	415	22	3,111

# ACCOUNTANTS' REPORT

		Company		
	Contributed surplus	Share issuance		
	$(note \ c)$	costs	Total	
	HK\$'000	HK\$'000	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	9,492	(4,465)	5,027	

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.

# ACCOUNTANTS' REPORT

#### (26) Long-term liabilities

	Group			
	As	As at		
	31st De	cember,	31st January,	
	2001	2002	2003	
	HK\$'000	HK\$'000	HK\$'000	
Bank loan, secured (note a)		14,143	14,143	
Convertible note (note b)	_	7,800	7,800	
Obligations under finance leases (note c)	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.

# ACCOUNTANTS' REPORT

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

	Group			
	As a	t	As at 31st January,	
	31st Dece	mber,		
	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	814	2,416	2,642	
	2,495	12,870	14,226	
Current portion of obligations under finance leases	(757)	(5,038)	(5,621)	
	1,738	7,832	8,605	

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

	Group			
	As at	t	As at 31st January,	
	31st Decen	mber,		
	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	854	2,492	2,727	
	2,885	14,416	15,907	
Less: future finance charges on finance leases	(390)	(1,546)	(1,681)	
Present value of finance lease obligations	2,495	12,870	14,226	

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

#### (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 2002	
	31st Dec 2001		
	HK\$'000	HK\$'000	<b>2003</b> <i>HK\$</i> '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 a	As at	
	31st Dece	ember,	31st January,
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Within one year	2,517	3,000	3,010
In the second to fifth year inclusive	4,261	3,913	3,689
	6,778	6,913	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 Apllications 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		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	5:			
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

# ACCOUNTANTS' REPORT

Company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/registered capital		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 RMB300,000 (equivalent to approximately HK\$943,000 RMB1,000,000 and 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 CICG (the "SCB Guarantee") and will be expired on 21st March, 2005. The guarantee given by CICG 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 CICG and GDC China Limited has pledged its entire interest in the registered capital of IDMT ("SCB Asset Pledge") to CICG for the repayment of all the debts incurred by CICG for which CICG 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 CICG 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.

# ACCOUNTANTS' REPORT

- (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

# **PROPERTY VALUATION**

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation into this prospectus received from Grant Sherman Appraisal Limited, an independent valuer, in connection with its valuation as at 30 April, 2003 of the property interests of the Group in Hong Kong the PRC and Singapore.



23rd July, 2003

The Directors Global Digital Creations Holdings Limited Suite 1205, No. 625 King's Road North Point Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Global Digital Creations Holdings Limited (the "Company") and its subsidiaries (together the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the properties as at 30 April, 2003.

Our valuations of the property interests are our opinion of the Open Market Value which we would define as intended to mean — "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumption that the Group sells the property interests on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the properties.

# **PROPERTY VALUATION**

We have not search the title of the properties, or scrutinised the original title documents. We have been given copies of the tenancy agreements under which the properties were rented to the Group. In the course of our valuation, we have relied on a considerable extent on information provided by the Company on such matters as statutory notices, easements, tenure, occupation, floor area, identification of the properties and all other relevant matters. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information supplied. All documents and leases have been used as reference only. All dimensions, measurements and areas are approximations.

The property interests have no commercial value due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

We have inspected the exterior and, where possible, the interior of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the property is free of rot, infestation or any structural defects. No tests have been carried out on any of the building services.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with. In addition, it is assumed that the utilization of the land and improvements is within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

We have also assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We enclose herewith a summary of our valuations and the valuation certificates.

### Yours faithfully, For and on behalf of **GRANT SHERMAN APPRAISAL LIMITED**

Henry W H Tse MRICS MHKIS Assistant Vice President Real Estate Group **Teo Yik Weng** FRICS FSISV Consultant

*Note:* Mr. Henry W H Tse, who is a Chartered Valuation Surveyor, has over 8 years experience in valuation of properties in Hong Kong and Mainland China. Mr. Teo Yik Weng, who is also a Chartered Valuation Surveyor, has substantial experience in valuation of properties in Singapore, Malaysia and Indonesia.

Property

# **PROPERTY VALUATION**

### SUMMARY OF VALUATIONS

Capital value in existing state as at 30 April, 2003 *HK\$* 

### Group I — Properties Rented/Licensed to and Occupied by the Group in Hong Kong

1.	Suite 1205 on 12th Floor No. 625 King's Road North Point Hong Kong	No commercial value
2.	Flat B on 4th Floor Block 1, Grandeur Villa No. 21 Tat Chee Avenue Yau Yat Chuen Kowloon	No commercial value
3.	Flat C on 9th Floor Tower 33, Parc Oasis No. 21 Grandeur Road Yau Yat Chuen Kowloon	No commercial value
4.	Car Parking Space No. 18 on Car Parking Level 2 Parc Oasis No. 31 Grandeur Road Yau Yat Chuen Kowloon	No commercial value
5.	Flat B on 6th Floor Mei Fai Mansion Nos. 110–116 Jaffe Road Wanchai Hong Kong	No commercial value
6.	Flat B on 10th Floor Three Island Place No. 61 Tanner Road North Point Hong Kong	No commercial value
7.	Flat F on 8th Floor Tung Po Building Nos. 483–497 King's Road North Point Hong Kong	No commercial value

	Property	Capital value in existing state as at 30 April, 2003 <i>HK</i> \$
8.	Flat C on 13th Floor King Fook Court Bedford Garden No. 173 Tin Hau Temple Road Hong Kong	No commercial value
	Sub-total:	Nil
Gro	up II — Properties Rented and Occupied by the Group in the PRC	
9.	The Whole of Second and Third Levels Block B, Yuehaimen Square Nos. 2292–2300 Nanyau Avenue Nanshan District Shenzhen The People's Republic of China	No commercial value
10.	Portion of First Level Block B, Yuehaimen Square Nos. 2292–2300 Nanyau Avenue Nanshan District Shenzhen The People's Republic of China	No commercial value
11.	Nos. 101–104 on First Level and Underground Level Block B1, Yuehaimen Square Nos. 2292–2300 Nanyau Avenue Nanshan District Shenzhen The People's Republic of China	No commercial value
12.	Unit 1802 on 18th Floor La Residence Nos. 90–98 Zhen Ning Road Jingan District Shanghai City The People's Republic of China	No commercial value
13.	Units 3101–3108 Zhaofeng Plaza No. 1027 Changning Road Changning District Shanghai City The People's Republic of China	No commercial value
	Sub-total:	Nil

	Property	Capital value in existing state as at 30 April, 2003 <i>HK</i> \$
Gro	up III — Property Rented and Occupied by the Group in Singapore	
14.	Portion of 70B and The Whole Portion Except a Server Room of 70A Amoy Street Singapore 069889 Singapore	No commercial value
	Sub-total:	Nil
	Grand-total:	Nil

# **PROPERTY VALUATION**

# VALUATION CERTIFICATE

# Group I — Properties Rented/Licensed to and Occupied by the Group in Hong Kong

	Property	Description and Tenure	Capital value in existing state as at 30 April, 2003 <i>HK</i> \$
1.	Suite 1205 on 12th Floor No. 625 King's Road North Point Hong Kong	The property comprises an office unit on the 12th floor of a 26-storey (plus two basement levels) office building completed in 1998.	No commercial value
		The property has a gross floor area of approximately 1,878 sq.ft. It is currently occupied by the Group as an office.	
		The property is rented by GDC China Limited, a wholly-owned subsidiary of the Group, for a term of two years commencing from 20 February, 2002 at a monthly rent of HK\$25,353 exclusive of rates, service charges, air-conditioning and management charges.	
2.	Flat B on 4th Floor Block 1, Grandeur Villa No. 21 Tat Chee Avenue Yau Yat Chuen	The property comprises a residential flat on the 4th floor of a 9-storey residential block in a private residential development completed in 1991.	No commercial value
	Yau Yat Chuen Kowloon	The property has a gross floor area of approximately 1,410 sq.ft. It is currently occupied by the Group as director's quarters.	
		The property is rented by GDC China Limited, a wholly-owned subsidiary of the Group, for a term of two years commencing from 7 May, 2002 at a monthly rent of HK\$28,000 exclusive of service charges and management fees. The tenancy agreement has a break clause giving the tenant a right to terminate the agreement in the second year by serving not less than one month's notice.	
3.	Flat C on 9th Floor Tower 33, Parc Oasis No. 21 Grandeur Road Yau Yat Chuen	The property comprises a residential flat on the 9th floor of a 11-storey residential block in a private residential development completed in 1995.	No commercial value
	Kowloon	The property has a gross floor area of approximately 1,033 sq.ft. It is currently occupied by the Group as staff's quarters.	
		The property is licensed to GDC China Limited, a wholly- owned subsidiary of the Group, via a verbal monthly license at a monthly license fee of HK\$22,000 inclusive of management fees, government rent and rates.	
4.	Car Parking Space No.18 on Car Parking Level 2 Parc Oasis No. 31 Grandeur Road	The property comprises a car parking space on the 2nd level of a 3-level car park in a private residential development completed in 1995.	No commercial value
	Yau Yat Chuen Kowloon	The property is currently occupied by the Group as car parking space for the use of a staff member.	
		The property is licensed to GDC China Limited, a wholly- owned subsidiary of the Group, via a verbal monthly license at a monthly license fee of HK\$2,500 inclusive of management fees, government rent and rates.	

	Property	Description and Tenure	Capital value in existing state as at 30 April, 2003 <i>HK\$</i>
5.	Flat B on 6th Floor Mei Fai Mansion Nos. 110–116 Jaffe Road Wanchai	The property comprises a residential flat on the 6th floor of a 24-storey residential block completed in 1986. The property has a gross floor area of approximately 556 sq.ft.	No commercial value
	Hong Kong	It is currently occupied by the Group as staff quarters. The property is rented by GDC China Limited, a wholly-owned subsidiary of the Group, for a term of one year commencing from 15 October, 2002 at a monthly rent of HK\$8,000 exclusive of government rent, rates, taxes, management fees and service charges. The tenancy agreement has a break clause giving either party the right to terminate the agreement by serving a one- month written notice.	
6.	Flat B on 10th Floor Three Island Place No. 61 Tanner Road North Point Hong Kong	The property comprises a residential flat on the 10th floor of a 32-storey residential tower built upon a 5-level commercial/ carpark podium in a private residential development. The development was completed in 1996. The property has a gross floor area of approximately 781 sq.ft	No commercial value
		It is occupied by the Group as staff quarters. The property is rented by GDC China Limited, a wholly-owned subsidiary of the Group, for a term of two years commencing from 1 April, 2003 at a monthly rent of HK\$12,500 inclusive of rates and management fee. The tenancy agreement has a break clause giving the tenant a right to terminate the agreement in the second year of the term by serving a one-month written notice or payment of one month's rent in lieu of the notice.	
7.	Flat F on 8th Floor Tung Po Building Nos. 483–497 King's Road North Point Hong Kong	The property comprises a residential flat on the 8th floor of a 20-storey residential tower built upon a 4-storey commercial podium. The development was completed in 1986. The property has a gross floor area of approximately 454 sq.ft. It is currently occupied by the Group as staff quarters.	No commercial value
		The property is rented by GDC China Limited, a wholly-owned subsidiary of the Group, for a term of two years commencing from 15 January, 2002 at a monthly rent of HK\$7,500 inclusive of management fees, government rent and rates, but exclusive of service charges. The tenancy agreement has a break clause giving the tenant a right to terminate the agreement in the second year by serving a one-month written notice.	

	Property	Description and Tenure	Capital value in existing state as at 30 April, 2003 <i>HK\$</i>
8.	Flat C on 13th Floor King Fook Court Bedford Garden No. 173 Tin Hau Temple Road	The property comprises a residential flat on the 13th floor of a 20-storey residential tower in a private residential development. The development was completed in 1981.	No commercial value
	Hong Kong	The property has a gross floor area of approximately 625 sq.ft. It is currently occupied by the Group as staff quarters.	
		The property is rented by GDC China Limited, a wholly-owned subsidiary of the Group, for a term of two years commencing from 15 January, 2003 at a monthly rent of HK\$8,000 inclusive of management fees, government rent and rates, but exclusive of service charges. The tenancy agreement has a break clause giving the landlord and the tenant a right to terminate the agreement in the second year of the term by serving a two- month written notice or payment of two months' rent in lieu of the notice.	
Gro	up II — Properties Rentee	and Occupied by the Group in the PRC	
9.	The Whole of Second and Third Levels Block B, Yuehaimen Square Nos. 2292–2300 Nanyau	The property comprises the whole of the second and the third levels in a 3-storey (plus an underground level) building completed in 1995.	No commercial value
	Avenue Nanshan District Shenzhen The People's Republic of China	The property has a total gross floor area of approximately 4,600 sq. m (49,514 sq.ft.). It is currently occupied by the Group as a training center accommodating animation laboratories, instructor's office, instructor and student dormitories, and other ancillary rooms and facilities.	
		The property is leased by IDMT (Shenzhen) Limited, a wholly- owned subsidiary of the Group, for a term from 20 June, 2000 to 19 June, 2005 at a monthly rent of RMB128,800 exclusive of management fees and service charges.	
10.	Portion of First Level Block B, Yuehaimen Square Nos. 2292–2300 Nanyau	The property comprises a portion of the first level in a 3-storey (plus an underground level) building completed in 1995.	No commercial value
	Avenue Nanshan District Shenzhen The People's Republic of China	The property has a total gross floor area of approximately 903 sq. m (9,720 sq.ft.). It is currently occupied by the Group as an animation production house.	
		The property is leased by IDMT (Shenzhen) Limited, a wholly- owned subsidiary of the Group, for a term from 20 February, 2001 to 19 June, 2005 at a monthly rent of RMB25,284 exclusive of management fees and service charges.	

	Property	Description and Tenure	Capital value in existing state as at 30 April, 2003 <i>HK</i> \$
11.	Nos. 101–104 on First Level and Underground Level Block B1, Yuehaimen Square Nos. 2292–2300 Nanyau	The property comprises a portion of the first level and the underground level in a 3-storey (plus a underground level) building completed in 1995.	No commercial value
	Avenue Nanshan District Shenzhen The People's Republic of China	The property has a total gross floor area of approximately 1169 sq. m (12,583 sq.ft.). The property is currently vacant and is intended to be used by the Group as production studio.	
		The property is leased by IDMT (Shenzhen) Limited, a wholly- owned subsidiary of the Group, for a term from 15 November, 2002 to 14 November, 2006 at a monthly rent of RMB32,732 exclusive of management fees and service charges.	
12.	Unit 1802 on 18th Floor La Residence Nos. 90–98 Zhen Ning Road	The property comprises an apartment on the 18th floor of a 38-storey residential tower completed in about 1999.	No commercial value
	Jingan District Shanghai City The People's Republic of China	The property has a gross floor area of approximately 130.16 sq. m (1401 sq.ft.). It is currently occupied by the Group as a representative office.	
		The property is rented by Shanghai Representative Office of IDMT (Shenzhen) Limited, a wholly-owned subsidiary of the Group, for a term of six months commencing from 28 January, 2003 at a monthly rent of RMB8750 inclusive of management fees but exclusive of services charges. In addition, a car parking space is provided at no charge by the landlord under the tenancy agreement.	
13.	Units 3101–3108 Zhaofeng Plaza No. 1027 Changning Road	The property comprises an office floor on the 31st level of a 42- level office/commercial building completed in 2002.	No commercial value
	Changning District Shanghai City The People's Republic of China	The property has a gross floor area of approximately 1,956.47 sq.m. (21,059 sq.ft.)	
		The property is leased by IDMT (Shenzhen) Limited, a wholly- owned subsidiary of the Group, for a term of five years commencing from 1 June, 2003 at a yearly rent of RMB3,000,000 plus a yearly interior finishing fee of RMB600,000 (i.e. total RMB3,600,000) to be paid half-yearly, exclusive of management fees and service charges. It is used by the Group as office, production studio, and training school.	

Prop	erty	Description and Tenure	Capital value in existing state as at 30 April, 2003 <i>HK</i> \$
Group III — Property Rented and Occupied by the Group in Singapore			
The V a Serv Amoy	n of 70B and Vhole Portion Except ver Room of 70A v Street pore 069889 pore	The property comprises furnished office spaces on the 3rd storey ("Portion of 70B") and the whole of the 2nd storey excluding the server room ("The Whole Portion Except a Server Room of 70A") of a 3-storey terrace commercial building completed in 1960s. The building was fully refurbished about three years ago. Portion of 70B has a lettable floor area of about 77 sq.ft. and The Whole Portion Except a Server Room of 70A has a gross floor area of about 1,043 sq.ft Portion of 70B was rented through a sub-tenancy agreement by GDC Technology Pte Ltd., a wholly-owned subsidiary of the Group, for a term of one year commencing from 1 September 2002 at a monthly rent of \$\$1000 (approximately HK\$4,300) inclusive of management fees, service charges and Goods & Services Tax (GST). Through a supplemental sub-tenancy agreement dated 12 May, 2003, GDC Technology Pte Ltd agreed to relocate to The Whole Portion Except a Server Room of 70A on 15 May, 2003 with a new monthly before Goods and Services Tax rent of \$\$4800 (approximately HK\$20,640) inclusive of management fee, utilities and certain office administration services charges, and all other terms unchanged. The Whole Portion Except a Server Room of 70A is currently occupied by the Group as an office.	No commercial value



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.

### VALUATION ON THRU THE MOEBIUS STRIP

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

### APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BERMUDA COMPANY LAW

Set out below is a summary of certain provisions of the memorandum of association (the "Memorandum of Associates) and bye-laws (the "Bye-laws") of the Company and of certain aspects of Bermuda company law.

### 1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

#### 2. BYE-LAWS

The Bye-laws were adopted on 18th July, 2003. The following is a summary of certain provisions of the Bye-laws:

#### (a) Directors

#### (i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

- *Note*: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.
- (iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarized in the paragraph headed "Bermuda Company Law" in this appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

#### (vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

### APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BERMUDA COMPANY LAW

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or subunderwriting of the offer;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

#### (vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

### SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BERMUDA COMPANY LAW

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

#### (viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last reelected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

#### (ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note*: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

#### (b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

#### (c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

#### (d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

#### (e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

#### (f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

#### (g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

#### (h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditor should disclose this fact and name such country and jurisdiction.

#### (i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

#### (j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transfer to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

#### (k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

#### (I) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

#### (m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board

may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

#### (n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

#### (o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

#### (p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of \$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

#### (q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

#### (r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarized in paragraph 4(e) of this appendix.

#### (s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

#### (t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws), has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

#### (u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

#### 3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Byelaws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these

purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

### 4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### (a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

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#### (b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

#### (c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

#### (d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

#### (e) **Protection of minorities**

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

#### (f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

#### (g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards as may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the

company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company or the member's notice of election.

#### (h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

#### (i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

#### (j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

#### (k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

#### (l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20% interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

#### (m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If the summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

#### (n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

### 5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix VI. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

### 1. Incorporation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 9th October, 2002. The Company has established a place of business in Hong Kong at No. 625, King's Road, Suite 1205, North Point, Hong Kong. It was registered on 24th February, 2003 with the Registrar of Companies in Hong Kong as an overseas company in Hong Kong under Part XI of the Companies Ordinance, and Raymond Neoh was appointed as the agents of the Company for the acceptance of service of process.

As the Company is incorporated in Bermuda, it operates subject to Bermuda law and its constitutive documents comprised a memorandum of association and bye-laws of the Company. A summary of various provisions of the Company's constitution and relevant aspects of the Bermuda company law is set out in appendix IV to this prospectus.

### 2. Changes in share capital

- (a) As at the date of incorporation of the Company, its initial authorised share capital was HK\$100,000 divided into 10,000,000 Shares with a nominal value of HK\$0.01 each.
- (b) On 7th November, 2002, 10,000,000 Shares were allotted and issued nil-paid to Upflow Holdings Limited.
- (c) By written resolutions of the Shareholders dated 31st December, 2002:
  - (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$12,000,000 by the creation of an additional 1,190,000,000 Shares; and
  - (ii) as consideration for the acquisition ("Acquisition") by the Company of the entire issued share capital of GDC (BVI) Limited, the Directors were authorised to allot and issue an aggregate of 30,000,000 Shares, credited as fully paid to the then existing shareholders of GDC (BVI) Limited (as described in sub-paragraph (s) in the paragraph headed "Corporate reorganization" in this appendix V), and to credit as fully paid at par the 10,000,000 Shares issued nil-paid to Upflow Holdings Limited on 7th November, 2002.
- (d) On 26th June, 2003 and 25th June, 2003, Overseas Chinese Town and CITIC International Assets Management Limited first became Shareholders respectively (details of such first entrance as shareholders are set out in Notes 17 and 18 to the sub-section headed "Shareholding structure and restrictions on disposal on Shares" in the section headed "Summary" of this prospectus.)

Assuming that the New Issue becomes unconditional, immediately following completion of the New Issue and the Capitalization Issue but taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and/or the Sotas Option, the authorised share capital of the Company will be HK\$12,000,000 divided into 1,200,000,000 Shares, of which 780,000,000 Shares will be allotted and issued fully paid or credited as fully paid, and 420,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme and/or the Sotas Option and save as disclosed above, there is no present intention to issue any part of the authorised and unissued share capital of the Company.

## STATUTORY AND GENERAL INFORMATION

Save as aforesaid, there has been no alteration in the share capital of the Company since its incorporation.

# 3. Resolutions of the Shareholders passed at the Company's special general meeting held on 18th July, 2003

In accordance with the resolutions passed by the Shareholders in a special general meeting held on 18th July, 2003:

- (a) the bye-laws of the Company were adopted;
- (b) the increase of the authorised share capital of the Company from HK\$100,000 to HK\$12,000,000 by the creation of an additional 1,190,000,000 Shares which was effected on 20th February, 2003, was noted;
- (c) the Acquisition by the Company was noted;
- (d) conditional upon all conditions set out in the sub-section headed "Conditions of the New Issue" under the section headed "Structure of the New Issue" of this prospectus:
  - (i) the New Issue and the Sotas Option was approved and the Directors were authorised to allot and issue the New Shares pursuant thereto;
  - (ii) the Share Option Scheme was approved and adopted and the Directors were authorised to grant options to subscribe for shares thereunder and to allot and issue Shares pursuant to the exercise of any options granted under the Share Option Scheme;
  - (iii) the Sotas Option was approved and adopted and the Directors were authorized to grant the Sotas Option and to allot and issue Shares pursuant to the exercise of the Sotas Option; and
  - (iv) the Capitalization Issue was approved and conditional upon the share premium account of the Company being credited as a result of the New Issue, 670,452,008 Shares be allotted and issued to holders of Shares whose names appear on the register of members of the Company as at the close of business on 18th July, 2003 in proportion to their then existing shareholdings in the Company (or as such holders may direct) and an amount of HK\$6,704,520 standing to the credit of the share premium account of the Company be applied to pay up in full at par such Shares;
- (e) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or pursuant to the exercise of any options granted under any share option scheme or an issue of shares of the Company in lieu of the whole or part of a dividend on shares in accordance with the bye-laws of the Company, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following the New Issue and the Capitalization Issue;
- (f) a general unconditional mandate was given to the Directors to purchase its own securities listed on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and recognized by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the New Issue and Capitalization Issue;

(g) the general unconditional mandate referred to in paragraph (e) above was extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such unconditional general mandate of an amount representing the aggregate nominal amount of the Shares purchased by the Company pursuant to the mandate to purchase its own securities listed referred to in paragraph (f) above provided that such extended amount shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company outstanding, immediately following completion of the New Issue and the Capitalization Issue;

each of the general unconditional mandates referred to above will remain in effect until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law of Bermuda to be held, or when it is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

### 4. Corporate reorganization

The companies comprising the Group underwent a reorganization in preparation for the listing of the Shares on the Stock Exchange. Following the reorganization, the Company became the holding company of the Group.

The corporate reorganization involved the following:

- (a) On 29th December, 1999, GDC Technology Limited was incorporated in the BVI and on 11th January, 2000, one share of US\$1.00 was allotted and issued to Financial Outreach Limited at par for cash.
- (b) On 31st March, 2000, one share of US\$1.00 in GDC Technology Limited was transferred by Financial Outreach Limited to GDC. In consideration, Financial Outreach Limited was allotted and issued 1,500 shares of US\$1.00 in the share capital of GDC.
- (c) On 7th September, 2000, GDC Technology Pte. Limited (formerly known as Cycle Flow Pte. Limited) was incorporated in Singapore and on the same day, two shares of S\$ 1.00 each were issued and allotted to Annie Oh Kai Yen and Phoon Lee Fong respectively at par for cash.
- (d) On 4th October, 2000, one share of S\$1.00 each in GDC Technology Pte. Limited was transferred by Annie Oh Kai Yen to Chong Man Nang at par for cash, to the extent that such one share in GDC Technology Pte. Limited is to be held by Chong Man Nang on trust for GDC Technology Limited. On the same day, the other one share of S\$1.00 each in GDC Technology Pte. Limited was transferred by Phoon Lee Fong to GDC Technology Limited at par value for cash.
- (e) On 29th December, 1999, GDC Entertainment Limited (formerly known as GDC Enterprises Limited) was incorporated in the BVI. On 11th January, 2000, 1,710 shares, 1,500 shares and 300 shares of US\$1.00 each in GDC Entertainment Limited were issued and allotted to Upflow Holdings Limited, Kingsway Technology Investments Limited and William Ka Chung Lam respectively at par for cash.
- (f) On 31st March, 2000, 1,710 shares, 1,500 shares and 300 shares of US\$1.00 each in GDC Entertainment Limited were transferred by Upflow Holdings Limited, Kingsway Technology Investments Limited and William Ka Chung Lam respectively to GDC. In consideration, GDC

allotted and issued 1,710,000, 1,500,000 and 300,000 shares of US\$1.00 each in GDC to Upflow Holdings Limited, Kingsway Technology Investments Limited and William Ka Chung Lam respectively.

- (g) On 14th January, 2000, GDC China Limited was incorporated in Hong Kong and on 3rd January 2000, one share of HK\$1.00 each in GDC China Limited were allotted and issued to New Way Secretarial Limited and Smart Registrations Limited respectively at par for cash.
- (h) On 30th March, 2000, one share of HK\$1.00 each in GDC China Limited was transferred by New Way Secretarial Limited to Bill Lam & Associates Limited at par for cash, to the extent that such one share in GDC China Limited is to be held by Bill Lam & Associates on trust for Financial Outreach Limited. On the same day, one share of HK\$1.00 each in the share capital of GDC China Limited was transferred by Smart Registrations Limited to Financial Outreach Limited at par for cash. On 31st March, 2000, Bill Lam & Associates Limited executed another declaration of trust to declare that the beneficial ownership of the one share in GDC China Limited, held in its name, should belong to GDC.
- (i) On 31st March, 2000, one share of HK\$1.00 each in GDC China Limited was transferred by Financial Outreach Limited to GDC in consideration of HK\$455,000 in cash which was based on the then net book value of GDC China Limited.
- (j) On 13th August, 2001, one share of HK\$1.00 each in GDC China Limited was transferred from Bill & Lam Associates Limited to Mak, Lai Yu Amelia at par for cash. On the same day, Mak Lai Yu Amelia executed a declaration of trust to declare that the beneficial ownership of the one share in GDC China Limited, held in her name, should belong to GDC.
- (k) On 17th August, 2000, IDMT was incorporated in Shenzhen, the PRC as the GDC China Limited's wholly owned foreign enterprise.
- (1) On 3rd September, 2002, GDC Holdings Limited was incorporated in the BVI and on 28th November, 2002, one share of US\$0.01 each in GDC Holdings Limited was issued and allotted to GDC at par for cash.
- (m) On 9th October, 2002, the Company was incorporated in Bermuda and on 7th November, 2002, 10,000,000 Shares of HK\$0.01 each were issued and allotted to Upflow Holdings Limited nil paid;
- (n) On 14th November, 2002, GDC (BVI) Limited was incorporated in the BVI and on 28th November, 2002, one share of US\$0.01 each in GDC (BVI) Limited was allotted and issued to GDC at par for cash.
- (o) On 28th November, 2002, GDC sold all its shares and inter-company debts in GDC Technology Limited, GDC Entertainment Limited and GDC China Limited to GDC Holdings Limited ("Share Swap 1"). The consideration for the aforesaid sale by GDC consisted of (i) GDC Holdings Limited's allotment and issuance of 521,418,075 of its shares of US\$0.01 each, credited as fully paid and each ranking pari passu with the existing shares of GDC Holdings Limited in all respects, to GDC; and (ii) GDC Holdings Limited's assumption of certain loans and a convertible loan (brief details of which are set out under the subsections 7(c) to 7(i) under the section headed "Summary of material contracts" in this appendix) which were owed by GDC to several lenders, by way of novation.

- (p) On 28th November, 2002, GDC sold its entire 100% shareholding in GDC Holdings Limited to GDC (BVI) Limited ("Share Swap 2") in consideration of GDC (BVI) Limited's allotment and issuance of 521,418,075 of its shares of US\$0.01 each, credited as fully paid and each ranking pari passu with the existing shares of GDC (BVI) Limited in all respects, to GDC.
- (q) On 28th November, 2002, GDC reduced its issued share capital from US\$24,700,000.00 divided into 24,700,000 shares of US\$1.00 each to US\$100,000 divided into 100,000 shares of US\$1.00 each, by reducing and canceling its paid-up capital.
- (r) On 28th November, 2002, GDC distributed to its existing shareholders its entire shareholding in GDC (BVI) Limited by way of distribution in specie pro rata, in the following manner:

Name of Shareholder	Number of distributed shares to be allotted
Upflow Holdings Limited	162,758,435.869
Anthony Neoh	94,995,196.032
Perfect Brilliant Limited	22,165,545.741
Christopher Paul Neoh	7,916,266.336
SRI Group Limited	12,666,026.138
Richard Yingneng Yin	6,333,013.069
Cyber Prime Developments Limited	31,665,065.344
Financial Outreach Limited	12,666,026.138
Ajitkumar Chandubhai Patel	7,916,266.336
Sotas Limited	42,220,087.126
Chong Man Nang	6,333,013.069
Forward Strategic Investments Limited	66,042,771.286
Bright Oceans Corporation (HK) Limited	15,642,542.280
Future United Investments Limited	7,821,271.140
Marketeer Management Limited	21,110,043.563
Kanwin Corporation	3,166,506.534

## STATUTORY AND GENERAL INFORMATION

(s) After GDC (BVI) Limited repurchased 14,664,005 shares of GDC (BVI) Limited from Forward Strategic Investments Limited for cancellation on 31st December, 2002, the existing shareholders of GDC (BVI) Limited sold their entire 100% shareholdings in GDC (BVI) Limited to the Company ("Share Swap 3") in return of the Company's allotment and issuance of the aggregate of 30,000,000 Shares in the following manner and to credit as fully paid at par the 10,000,000 Shares issued nil-paid to Upflow Holdings Limited on 7th November, 2002:

Name of Shareholder	Number of Shares to be allotted as consideration
	consider ation
Upflow Holdings Limited	2,975,156
Anthony Neoh	7,573,048
Perfect Brilliant Limited	1,767,044
Christopher Paul Neoh	631,088
SRI Group Limited	1,009,740
Richard Yingneng Yin	504,870
Cyber Prime Developments Limited	2,524,350
Financial Outreach Limited	1,009,740
Ajitkumar Chandubhai Patel	631,088
Sotas Limited	3,365,800
Chong Man Nang	504,870
Forward Strategic Investments Limited	3,697,330
Bright Oceans Corporation (HK) Limited	1,247,028
Future United Investments Limited	623,514
Marketeer Management Limited	1,682,900
Kanwin Corporation	252,434

### Information about the Group's principal PRC enterprise

Name of PRC enterprise:	IDMT (Shenzhen) Limited* (環球數碼媒體科技研究(深圳)有限公司)
Nature:	Wholly foreign-owned enterprise
Registered capital:	US\$2 million
Total Investment Amount:	US\$2.58 million
Attributable interest of the Group:	100% (through GDC China Limited)
Date of establishment:	17th August, 2000
Term of joint venture:	30 years commencing on 17th August, 2000

\* For identification purposes only

### 5. Changes in the share capital of subsidiaries

The subsidiaries of the Company are listed in the accountant's report set out in appendix I to this prospectus. The following alterations in the share capital of the Company's subsidiaries took place within two years immediately preceding the date of this prospectus.

- (a) GDC China Limited
  - (i) On 13th August, 2001, one share of HK\$1.00 each in GDC China Limited was transferred from Bill & Lam Associates Limited to Amelia Mak Lai Yu at par for cash. On the same day, Amelia Mak Lai Yu executed a declaration of trust to declare that the beneficial ownership of the one share in GDC China Limited held in her name, should belong to GDC.
  - (ii) On 28th November, 2002, GDC sold the entire issued capital in GDC China Limited (which consisted of two shares of HK\$1.00 each) to GDC Holdings Limited as part of Share Swap 1.
  - (iii) On 29th November, 2002, Amelia Mak Lai Yu executed a declaration of trust to declare that the beneficial ownership of the one share in GDC China Limited held in her name, should belong to GDC.
- (b) GDC Technology Limited
  - (i) On 28th November, 2002, GDC sold the entire issued capital in GDC Technology Limited (which consisted of one share of US\$1.00 each) to GDC Holdings Limited as part of Share Swap 1.
- (c) GDC Entertainment Limited
  - (i) On 28th November, 2002, GDC sold the entire issued capital in GDC Entertainment Limited (which consisted of 3,510 shares of US\$1.00 each) to GDC Holdings Limited as part of Share Swap 1.
- (d) GDC Holdings Limited
  - On 28th November, 2002 and pursuant to Share Swap 2, GDC sold the entire issued capital in GDC Holdings Limited (which consisted of 521,418,076 shares of US\$0.01 each) to GDC (BVI) Limited.
- (e) GDC (BVI) Limited
  - (i) On 31st December, 2002 and pursuant to Share Swap 3, the then existing shareholders of GDC (BVI) Limited sold the entire issued share capital in GDC (BVI) Limited (which consisted of 521,418,076 shares of US\$0.01 each) to the Company.

Save as aforesaid and under the paragraph headed "Corporate reorganization" in this appendix V, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years preceding the date of this prospectus.

### 6. Purchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the purchase by the Company of its own securities:

### (a) The GEM Listing Rules

The GEM Listing Rules permit companies whose listing are on GEM to purchase their securities on GEM, subject to certain restrictions, the most important of which are summarized below:

### (i) Shareholders approval

All purchases of securities on GEM by a company with its listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

### (ii) Sources of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Bye-laws and the applicable laws of Bermuda. A listed company is prohibited from purchasing its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

### (iii) Trading restrictions

The total number of shares which a company is authorised to purchase on GEM or on any other stock exchange recognized by the SFC and the Stock Exchange are shares representing up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company and warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding in issue at the date of the passing of the relevant resolution granting the buyback mandate. A company may not issue or announce an issue of new securities of the type that have been purchased for a period of 30 days immediately following a purchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. A company is prohibited from purchasing its securities on GEM if the purchases would result in the number of the listed securities in the hands of the public falling below the relevant prescribed minimum percentage for that company as required by the Stock Exchange.

### (iv) Status of purchased shares

The GEM Listing Rules provided that purchase can only be made if the Shares proposed to be purchased are fully-paid up.

The listing of all purchased securities (whether on GEM or otherwise) is automatically cancelled. Under Bermuda law, a company's purchased share shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the purchased shares accordingly although the authorised share capital of the company will not be reduced.

### (v) Suspension of purchase

Any securities purchase programme shall be suspended after a price-sensitive development has occurred or has been the subject of a decision until the price sensitive information has been made public. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of the company's interim report or quarterly report, the company may not purchase its securities on GEM, unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit purchases of securities on GEM if the company has breached the GEM Listing Rules.

### (vi) Reporting Requirements

Purchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading section or any pre-opening session on the following business day on which the issuer makes a repurchase of Shares. The Stock Exchange is to make this information publicly available as soon as possible. In addition, the company is required in its annual report and accounts to disclose details regarding purchases of securities made during the year, including a monthly analysis on the number of securities purchased, the purchase price per share or the highest and lowest price paid by the company and the aggregate prices paid. The directors' report shall contain reference to the purchases made during the year and the reasons for making such purchases. The Company shall procure that any broker appointed by it to effect the purchase of securities shall disclose to the Stock Exchange such information with respect to purchase made on behalf of the Company as the Stock Exchange request.

### (vii) Connected parties

A company is prohibited from knowingly purchasing securities of the company on GEM from a connected person, that is, a director, a chief executive, a substantial shareholder or a management shareholder of the company or their respective associates. A connected person shall not knowingly sell his securities to the company on GEM.

### (b) Exercise of the buyback mandate

Exercise in full of the buyback mandate, on the basis of 780,000,000 Shares in issue immediately after the listing of the Shares and completion of the Capitalization Issue but before the exercise of the options which may be granted under the Share Option Scheme and/or the Sotas Option, could accordingly result in up to 78,000,000 Shares (representing approximately 10% of the total issued share capital of the Company) as at the Listing Date being purchased by the Company during the period prior to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held; or
- (iii) the revocation or variation of the buyback mandate by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.

### (c) Reasons for purchases

The Directors believe that it is in the interests of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to purchase Shares in the market. Purchases of Shares will only be made when the Directors believe that such purchases will benefit the Company and its members. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

#### (d) Funding of purchases

In purchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and bye-laws, the GEM Listing Rules and the applicable laws of Bermuda.

The Company shall not purchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise in accordance with the trading rules of the Stock Exchange from time to time.

### (e) General

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that buyback mandate is exercised in full. The Directors do not propose to exercise the buyback mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries if the buyback mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the buyback mandate in accordance with the memorandum of association of the Company, the GEM Listing Rules and the applicable laws of Bermuda. No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the buyback mandate is exercised.

If as a result of a share purchase pursuant to the buyback mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Save as aforesaid, the Directors are not presently aware of any consequence which will arise under the Code as a consequence of any purchases made pursuant to the buyback mandate immediately after the listing of the Shares on the GEM.

### FURTHER INFORMATION ABOUT THE BUSINESS

### 7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) an agreement dated 23rd July, 2002 between GDC and Kingsway Capital, pursuant to which GDC agreed to appoint Kingsway Capital as a financial adviser in respect of the listing of the Shares on GEM and to grant Kingsway Capital the right (but not the obligation) to act as a joint Sponsor in respect of the same. This agreement was subsequently terminated by way of a written notice dated 31st March, 2003;
- (b) an agreement concluded on 7th November, 2002 between GDC and Kim Eng Capital (Hong Kong) Limited, pursuant to which Kim Eng Capital (Hong Kong) Limited agreed to act as the Company's sponsor in respect of the listing of the Shares on GEM. This agreement was subsequently terminated by way of a written notice dated 7th February, 2003 (the same of which was accepted on 11th February, 2003);
- (c) a deed of novation dated 28th November, 2002, made between GDC Holdings Limited, GDC and E-Talent, under the terms of which GDC agreed to transfer the loan together with outstanding interests which it owed to E-Talent, in the amount of HK\$5,880,047.94 to GDC Holdings Limited, by way of novation;
- (d) a deed of novation dated 28th November, 2002, made between GDC Holdings Limited, GDC and Sotas Limited, under the terms of which GDC agreed to transfer the loans together with outstanding interest which it owed to Sotas Limited, in an aggregate amount of HK\$7,859,616.45 to GDC Holdings Limited, by way of novation. This deed of novation further provided for GDC and GDC Holdings Limited to undertake to, prior to the Listing Date, issue to Sotas Limited and/or any of its designates, share options to subscribe for new Shares in replacement of certain options previously issued by GDC to Sotas Limited. The Company has therefore granted to Sotas Limited the Sotas Option, details of which are set out in sub-section 15 headed "Sotas Option" in this appendix;
- (e) a deed of novation dated 28th November, 2002, made between GDC Holdings Limited, GDC and Anthony Neoh, under the terms of which GDC agreed to transfer the loan together with outstanding interests which it owed to Anthony Neoh, in the amount of HK\$9,660,783.57 to GDC Holdings Limited, by way of novation;
- (f) a deed of novation dated 27th November, 2002, made between GDC Holdings Limited, GDC and Kingsway Finance, under the terms of which GDC agreed to transfer the loan together with outstanding interests which it owed to Kingsway Finance, in the amount of HK\$1,723,162.22 to GDC Holdings Limited, by way of novation;
- (g) a deed of novation dated 27th November, 2002, made between GDC Holdings Limited, GDC and William Ka Chung Lam, under the terms of which GDC agreed to transfer the loan together with outstanding interests which it owed to William Ka Chung Lam, in the amount of HK\$1,035,234.26 to GDC Holdings Limited, by way of novation;

- (h) a deed of novation dated 27th November, 2002, made between GDC Holdings Limited, GDC and Richard Yingneng Yin, under the terms of which GDC agreed to transfer the loan together with outstanding interests which it owed to Richard Yingneng Yin, in the amount of HK\$310,607.81 to GDC Holdings Limited, by way of novation;
- a deed of novation dated 27th November, 2002, made between GDC Holdings Limited, GDC and Middle Asia Limited, under the terms of which GDC Holdings Limited agreed to take over the benefits and obligations of GDC under the Middle Asia Subscription Agreement, by way of novation, as if GDC Holdings Limited had been named as a party thereto in substitution of GDC;
- (j) an agreement dated 16th December, 2002, between the Group and Adlabs, pursuant to which Adlabs agreed to sell and the Group agreed to purchase 3,200 shares of Adlabs D2C Apllications Pvt Ltd, a wholly owned subsidiary of Adlabs, representing an 8% equity interest in Adlabs D2C Apllications Pvt Ltd. The purchase of the said 3,200 shares is conditional upon, among other things, the successful listing of the Shares on GEM and the consideration thereof shall be US\$1,000,000;
- (k) a sale and purchase agreement dated 31st December, 2002 entered into amongst, inter alia, the Company and the then existing shareholders of GDC (BVI) Limited, whereby the Company acquired from the then existing shareholding of GDC (BVI) Limited the entire issued share capital of GDC (BVI) Limited, in consideration for the issue and allotment of an aggregate of 30,000,000 Shares, credited as fully paid, in the manner and to the shareholders whose name are more particularly set out in paragraph 4(s) in the section headed "Corporate Reorganization" of this appendix and to credit as fully paid at par the 10,000,000 Shares issued nil paid to Upflow Holdings Limited on 7th November, 2002;
- a deed of indemnity dated 31st December, 2002 given by Raymond Neoh, Anthony Neoh and Upflow Holdings Limited in favour of the Group in relation to taxation and estate duty, referred to in the paragraph headed "Estate duty and tax indemnity" in this appendix V.
- (m) an agreement (in Chinese) dated 23rd January, 2003, made between IDMT, the Company and Zhanjiang Dong Hai. Under the terms of this agreement, Zhanjiang Dong Hai agreed to invest in IDMT an amount of RMB2,000,000 (equivalent to approximately HK\$1,886,000) ("Zhanjiang Dong Hai investment"). This agreement also provided for the Group to convert the Zhanjiang Dong Hai investment into Shares upon listing of the Shares, at a conversion rate of 75% of the Issue Price. If conversion of the Zhanjiang Dong Hai investment into Shares fails to take place within one year from the Listing Date, the Group shall buy back such investment at 105% from Zhanjiang Dong Hai. This agreement was subsequently cancelled on 9th June, 2003 by mutual agreement of all parties, upon which Zhanjiang Dong Hai was entitled to demand for the repayment of RMB1,300,000 (which had already been paid to IDMT as deposit) from 30th July, 2003 onwards;
- (n) an agreement dated 7th February, 2003 between the Company and the Sponsor, pursuant to which the Sponsor agreed to act as the Company's sponsor in respect of the New Issue for a fee;
- (o) an agreement concluded on 19th March, 2003 between the Company and CM-CCS, pursuant to which CM-CCS agreed to act as the Company's lead Manager, bookrunner and financial adviser for a fee;

- (p) a share subscription agreement (in Chinese) dated 19th March, 2003 made between the Company and Shanghai Xin Chang Ning. Under the terms of this agreement, Shanghai Xin Chang Ning agreed to subscribe for and the Company agreed to issue 1% of its Shares to Shanghai Xin Chang Ning for a cash consideration of US\$1,000,000;
- (q) an agreement dated 27th March, 2003 made between the Company, Asia Investment Management Limited and the Lead Manager, pursuant to which Asia Investment Management Limited and the Lead Manager agreed to procure necessary interim financing for the Company on a best endeavours basis for a finder's fee on the total funds raised on a success basis;
- (r) an agreement dated 1st April, 2003 between the Company and Kingsway Capital, pursuant to which Kingsway Capital agreed to act as the Company's financial adviser in respect of the New Issue for a fee;
- (s) an agreement (in Chinese) dated 23rd April, 2003, made between IDMT, the Company and Shanghai Xin Chang Ning. Under the terms of this agreement, 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's investment"). This agreement also provided for the Group to convert the Shanghai Xin Chang Ning investment into Shares upon the listing of the Shares, at a conversion rate of 75% of the Issue Price. If conversion of the Shanghai Xin Chang Ning's investment into Shares fails to take place within one year from the date on which Shanghai Xin Chang Ning's investment were fully made, the Group shall buy back such investment at 105% from Shanghai Xin Chang Ning;
- (t) a share transfer agreement (in Chinese) dated 23rd April, 2003 made between GDC China and Shanghai Xin Chang Ning. Under the terms of this agreement, GDC China agreed to transfer 30% of its capital interest in IDMT to Shanghai Xin Chang Ning at a consideration of US\$1,000,000. Such transfer shall be effective upon receipt of the consideration of US\$1,000,000 by GDC China and the granting of approval for such transfer from the relevant PRC authorities which are empowered to approve such transfer;
- (u) a cancellation agreement dated 25th June, 2003, pursuant to which agreements itemised (p), (s) and (t) in this section were all cancelled. This cancellation agreement also provided that the Company shall repay RMB8,270,000 to Shanghai Xin Chang Ning before 30th June, 2004;
- (v) a share subscription agreement (in Chinese) dated 10th June, 2003, made between the Company, Overseas Chinese Town and Upflow Holdings Limited as guarantor. Under the terms of this share subscription agreement, Overseas Chinese Town agreed to subscribe for not less than 4.87% of Shares (held immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option) at the aggregate subscription price of HK\$28,500,000. According to this share subscription agreement, if the Company fails to have its Shares listed on GEM by 30th November, 2003, Overseas Chinese Town will be entitled to exercise a buyback option pursuant to which the Company is obliged to repurchase the aforesaid Shares subscribed by Overseas Chinese Town at HK\$28,500,000 (plus interest based on the London Interbank Offer Rate over the relevant period);
- (w) a share subscription agreement (in Chinese) dated 12th June, 2003, made between the Company and CITIC International Assets Management Limited. Under the terms of this share subscription agreement, CITIC International Assets Management Limited agreed to subscribe for not less than 2.00% of Shares (held immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option) at the aggregate subscription price of HK\$11,700,000;

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- (x) a sale and purchase agreement dated 20th June, 2003 entered into between GDC Entertainment Limited, a wholly-owned subsidiary of the Group, and Raymond Neoh pursuant to which GDC Entertainment Limited agreed to acquire from Raymond Neoh his entire shareholding interest (being one-third of the total issued shareholding interest) in Moebius Strip Limited for a cash consideration of US\$100,000. The cash consideration of US\$100,000 shall only be settled one year after the Listing Date;
- (y) a cancellation agreement dated 2nd July, 2003 entered into between GDC Entertainment Limited and Raymond Neoh pursuant to which the agreement itemised (x) in this section was cancelled;
- (z) the Underwriting Agreement; and
- (aa) a sponsor agreement dated 23rd July, 2003 entered into between the Company and the Sponsor whereby the Sponsor will act as the Company's sponsor for the period commencing from (and including) the Listing Date and ending on (and including) 31st December, 2005 or the date on which the arrangement set out in the agreement is terminated pursuant to the terms and conditions set out therein, whichever is earlier.

### 8. Intellectual property

(a) As at the Latest Practicable Date, the Group has applied for the registration of the following service marks:

Service marks in application

Mark	Place of Application	Class	Application Date	Application No.
	Hong Kong	37	29th May, 2002	2002 07800
	Hong Kong	41	29th May, 2002	2002 07801
G D C HOLDINGS	Hong Kong	41	18th December, 2002	2002 19800

(b) As at the Latest Practicable Date, the Group has applied for the registration of the following trademarks:

Mark	Place of Application	Class	Application Date	Application No.
DSR	Hong Kong	9	29th May, 2002	2002 07798
<i>i-</i> DSR	Hong Kong	9	29th May, 2002	2002 07799
EDSR	Hong Kong	9	29th May, 2002	2002 07802

Note:

Class	Items
9	Digital film equipment for processing, recording and playback of digital film signals; digital HDTV equipment for processing, recording and playback of digital HDTV and standard definition television signals.
37	Construction of digital or electronic cinema, digital or electronic exhibition hall and digital or electronic screening hall/room.
41	Entertainment and educational services relating to digital transmission, digital film and movie development and production; production, distribution and exhibition of digital films or movies in digital format without involving 35mm film or 35mm film projector; production, distribution and exhibition of digital videos or movies in HDTV format; production, distribution and exhibition of live broadcasts in digital format; digital cinema services; provision of movie studios for CG creation and production; games services provided on-line from a computer network; arranging and conducting of training courses relating to CG creation and production; publishing, information, consultancy and advisory services relating to all of the aforesaid services.

### FURTHER INFORMATION ABOUT DIRECTORS, STAFF AND EXPERTS

### 9. Disclosure of interests

(a) Interests and short positions of Directors in the share capital of the Company and its associated corporations immediately after the New Issue and the Capitalization Issue but before the exercise of the Sotas Option.

Immediately following the completion of the New Issue and the Capitalization Issue (but taking no account of any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme and/or the Sotas Option, so far as is known to the Directors, the beneficial interests (including interests and short positions in the Shares, underlying Shares and debentures) of the Directors in the shares or securities of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that Section, or will be required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

### The Company

Long positions in Shares

Name of Director	No. of Shares	Nature of Interests	Approximate percentage of interest (%)
Anthony Neoh	124,974,230	Personal (Note 1)	16.0%
Raymond Neoh	275,137,713	Corporate (Note 2)	35.3%
David Deng Wei	20,579,090	Corporate (Note 3)	2.6%
Richard Yingneng Yin	8,331,615	Personal (Note 4)	1.1%

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Notes:

- 1. The 124,974,230 Shares will be held by Anthony Neoh directly.
- 2. The 214,122,516 of these Shares will be held by Upflow Holdings Limited, a company incorporated in the BVI with limited liability and wholly owned by Raymond Neoh. The balance of the 61,015,197 Shares will be held by Forward Strategic, a wholly owned subsidiary of GDC, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited.
- 3. The 20,579,090 Shares will be held by Bright Oceans Corporation (HK) Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by David Deng Wei.
- 4. The 8,331,615 Shares will be held by Richard Yingneng Yin directly.

Long Positions in equity derivatives in, or in respect of, underlying Shares

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Nature of Interests	Approximate percentage of interest (%)
Anthony Neoh	32,201,692 options granted under the Scheme ( <i>Note 9</i> )	32,201,692	Personal (Note 10)	4.12%
Raymond Neoh	4,818,450 options granted under the Scheme	4,818,450	Personal (Note 11)	0.62%
Richard Yingneng Yin	5,387,778 options granted under the Scheme	5,387,778	Personal (Note 12)	0.69%

Notes:

- 9. Please refer to the definition of "Scheme" as set out on Note 4 of the sub-section headed "Shareholding Structure and Restrictions on Disposal of Shares" under the section headed "Summary" of this prospectus.
- 10. Anthony Neoh has been granted options under the Scheme, which when exercised by him, entitles him to subscribe for a total of 32,201,692 Shares.
- 11. Raymond Neoh has been granted options under the Scheme, which when exercised by him, entitles him to subscribe for a total of 4,818,450 Shares.
- 12. Richard Yingneng Yin has been granted options under the Scheme, which when exercised by him, entitles him to subscribe for a total of 5,387,778 Shares.

Short Positions in equity derivatives in, or in respect of, underlying Shares

Name of Director	Number and description of equity derivatives	Number of underlying Shares	Nature of Interests	Approximate percentage of interest (%)
Raymond Neoh	(Note 13)	61,015,197	Corporate (Note 13)	7.8%

#### Note:

- 13. Pursuant to the terms of the Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. As Forward Strategic is a wholly-owned subsidiary of GDC, which is in turn owned to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Raymond Neoh, GDC, Upflow Holdings Limited and Raymond Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic.
- (b) Persons who have a notifiable interest of short position which is disclosable under Division 2 and 3 of Part XV of the SFO and substantial shareholders (as defined under the GEM Listing Rules) of other members of the Group.

Immediately following completion of the New Issue and the Capitalization Issue (but taking into no account of any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme and/or the Sotas Option), so far as is known to the Directors, the following, not being a Director or chief executive of the Company, will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	No. of Shares	Nature of Interests	Approximate percentage of interest (%)
Forward Strategic	61,015,197	Corporate (Note 1)	7.8%
GDC	61,015,197	Corporate (Note 1)	7.8%
Upflow Holdings Limited	275,137,713	Corporate (Notes 1&2)	35.3%
SW Kingsway	41,658,077	Corporate (Note 3)	5.4%
Billion On Development Limited	41,658,077	Corporate (Note 3)	5.4%
Festival Developments Limited	41,658,077	Corporate (Note 3)	5.4%
Kingsway China Holdings	41,658,077	Corporate (Note 3)	5.4%
Limited			
Cyber Prime Developments	41,658,077	Corporate (Note 3)	5.4%
Limited			
Sotas Limited	55,544,102	Corporate (Note 4)	7.1%
Morningside CyberVentures	55,544,102	Corporate (Note 4)	7.1%
Holdings Limited			
Verrall Limited	55,544,102	Corporate (Note 4)	7.1%
Chan Tan Ching Fen	55,544,102	Corporate (Note 4)	7.1%

Notes:

- 1. The 61,015,197 Shares will be held by Forward Strategic, a wholly-owned subsidiary of GDC, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited which is wholly owned by Raymond Neoh.
- 2. The 214,122,516 Shares will be held by Upflow Holdings Limited, which is wholly owned by Raymond Neoh.
- 3. The 41,658,077 Shares will be held by Cyber Prime Developments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Billion On Development Limited, which is in turn wholly owned by Festival Developments Limited, which is in turn wholly owned by Kingsway China Holdings Limited, which is in turn wholly owned by SW Kingsway.

4. The 55,544,102 Shares will be held by Sotas Limited, a company incorporated in the BVI with limited liability and wholly owned by Morningside CyberVentures Holdings Limited, which is in turn a wholly-owned subsidiary of Verrall Limited in its capacity as the trustee of a family trust established by Madam Chan Tan Ching Fen, who will be taken to be interested in the Shares disclosed herein in her capacity as founder of the trust (as defined in the SFO) referred to above upon the listing of the Shares on GEM.

Short Positions in equity derivatives in, or in respect of, underlying Shares

Name	Number and description of equity derivatives	Number of underlying Shares	Nature of Interests	Approximate percentage of interest (%)
Forward Strategic	(Note 5)	61,015,197	Corporate ( <i>Note 5</i> )	7.8%
GDC	(Note 5)	61,015,197	Corporate ( <i>Note 5</i> )	7.8%
Upflow Holdings Limited	(Note 5)	61,015,197	Corporate (Note 5)	7.8%

Notes:

5. Pursuant to the terms of the Scheme, the grantees may purchase the 61,015,197 Shares according to its terms and conditions. As Forward Strategic is a wholly-owned subsidiary of GDC, which is in turn owned as to approximately 32.4% by Upflow Holdings Limited, which is wholly owned by Raymond Neoh, GDC, Upflow Holdings Limited and Raymond Neoh are accordingly deemed to be interested in the short positions taken by Forward Strategic.

Messrs. John C. R. Collis and Anthony D. Whaley, the Company's Bermuda resident representative and deputy representative respectively, are partners of Conyers Dill & Pearman, legal advisers to the Company on Bermuda law. Conyers Dill & Pearman will receive usual professional fees in connection with the incorporation of the Company and the New Issue. Mr. Ira Stuart Outerbridge III, the assistant secretary of the Company, is an employee of Codan Services Limited, a company affiliated with Conyers Dill & Pearman.

#### 10. Related party transactions

Within the two years immediately preceding the date of this prospectus the Group entered into the related party transactions as mentioned in note 13 in the section headed "Notes to the financial information" in the accountants' report set out in appendix I to this prospectus, the section headed "Summary of material contracts" in this appendix V and the paragraph headed "Connected transactions" in the section headed "Business" of this prospectus.

### **11.** Particulars of service contract

Raymond Noeh, the sole executive Director, has entered into a service agreement with the Company whereby he will serve as an executive Director. Particulars of such contract are set out below:

- (a) the service agreement is for an initial term of three years commencing from 18th July, 2003 and will continue thereafter until terminated by either party giving to the other not less than three calendar months' prior notice in writing;
- (b) the remuneration per month, subject to review annually by the Board, and decided by the majority in number of members of the Board, of Raymond Neoh is HK\$100,000;

- (c) the executive Director is entitled to such year-end bonus (if any) as determined by the Board and decided by the majority in number of the members of the Board provided that the total amount of bonuses payable to all Directors for such year shall not exceed 15% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items and the payment of such bonus;
- (d) the executive Director is also entitled to all reasonable out-of-pocket expenses and medical benefits; and
- (e) the executive Director shall abstain from voting and shall not be counted in the quorum at any meeting of the Board at which the Board is to determine the remuneration and year-end bonus payable to him.

## 12. Directors' remuneration

During the year ended 31st December, 2002, the aggregate of the remuneration paid to the directors of the Company were approximately HK\$3,419,000. Further information in respect of the Directors' remuneration is set out in note 10 in the section headed "Notes to the financial information" in the accountants' report in appendix I to this prospectus.

Under the present arrangements, the aggregate of the remuneration paid or payable to the executive Director for the year ending 31st December, 2003 are estimated to be approximately HK\$1,200,000 taking no account of any year-end bonus which the executive Director will be entitled to as mentioned above.

The annual remuneration payable to the executive Director under the service contract is as follows:

Annual remuneration payable

HK\$1,200,000

Name

Raymond Neoh

### 13. Disclaimers

Save as disclosed herein:

- (a) taking no account of the Shares which may be taken up under the New Issue, none of the Directors and chief executive of the Company is aware of any other Directors or chief executives who, as at the Latest Practicable Date, has any interests or short position in any Shares in, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which will be required pursuant to Section 352 of the SFO, to be entered in the register referred to in that Section, or will be required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange once the Shares are listed;
- (b) so far as is known to any Director, there is no person who is directly or indirectly interests in 5% or more of the nominal value of any class of share capital of carrying rights to vote in all circumstances at general meeting of the Company or any of its subsidiaries;

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- (c) none of the Directors or experts referred to under the paragraph headed "Consents of experts" in this appendix V has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors or experts referred to under the paragraph headed "Consents of experts" in this appendix V is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (f) there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between the Company or any of its subsidiaries and any of the Directors.

### 14. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the resolutions passed by the Shareholders in a special general meeting held on 18th July, 2003. For the purpose of this section, unless the context otherwise requires:

"Board"	means the board of Directors or a duly authorised committee thereof;
"Commencement Date"	means in respect of any particular Option, the date on which the Option is granted in accordance with the terms of the Share Option Scheme;
"Employee"	means any employee (whether or not full time and including directors and executives), of any member of the Group;
"Grantee"	means any Participant who has been offered and has accepted an Offer in accordance with the terms of the Share Option Scheme, or (where the context so permits) any person who is entitled to any Option in consequence of the death of the original Grantee;
"Listing Date"	means the date on which dealings in the Shares first commence on GEM;
"Offer"	means the offer of the grant of an Option made in accordance with the Share Option Scheme;
"Offer Date"	means the date on which an Offer is made to a Participant;
"Option"	means a right granted to subscribe for Shares pursuant to the terms of the Share Option Scheme;

## STATUTORY AND GENERAL INFORMATION

"Option Period"	means a period to be determined and notified by the Board to each Grantee and in any event such period of time shall not be more than ten years from the Commencement Date; and
"Participant"	means all full-time employee, Directors (including independent non- executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, joint venture partners, service provider to the Group who the Board considers, in its sole discretion, have contributed or contribute to the Group.

The purpose of this Share Option Scheme is to enable the Company to grant Options to selected persons as incentives or rewards for their contribution to the Group.

### (a) Administration

The Share Option Scheme is subject to the administration by the Board, and the decision of the Board shall be final and binding on all parties. The Board, subject to the GEM Listing Rules, shall have the right (i) to interpret and construe the provisions of the Share Option Scheme, (ii) to determine the eligibility of the persons who will be awarded Options under the Share Option Scheme, and the number and subscription price of Options awarded thereto, (iii) to make such appropriate and equitable adjustments to the terms of Options granted under the Share Option Scheme as it deems necessary, and (iv) to make such other decisions or determinations as it shall deem appropriate in the administration of the Share Option Scheme.

### (b) Who may join

The Board may, at its discretion, offer any Participants options to subscribe for such number of new Shares as the Board may determine at an exercise price to be determined in accordance with paragraph (c) below. Upon acceptance of the option, the Grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

### (c) Price of Shares

The subscription price for Shares under the Share Option Scheme will be determined by the Board in its absolute discretion and notified to a Participant and will be no less than the higher of:

- the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the Offer Date which must be a business day;
- (ii) the average closing price of the Shares as stated in the daily quotation sheets by the Stock Exchange for the five business days immediately preceding the Offer Date; and
- (iii) the nominal value of a Share on the Offer Date.

For the purpose of calculating the subscription price where the Company has been listed for less than 5 business days, the issue price shall be used as the closing price for any business day falling within the period before the Listing Date.

- (d) Maximum number of Shares
  - (i) The overall limit on the number of Shares which may be issued upon the exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time ("Scheme Limit"). Taking into account the Shares in issue immediately after the completion of the New Issue and the Capitalization Issue but before the exercise of the Sotas Option, the Scheme Limit is 78,000,000 Shares (representing approximately 10% of the total issued shares capital of the Company as at the Listing Date);
  - (ii) immediately after the Listing Date, the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10% of the Shares in issue on the Listing Date (the "Scheme Mandate Limit") unless approval of the Shareholders has been obtained pursuant to sub-paragraphs (iii) and (iv) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
  - (iii) subject to paragraph (i) above, the Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval, provided that the Scheme Mandate Limit as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or other share option scheme or exercised Options) will not be counted for the purpose for calculating the limit as "refreshed". A circular containing information required under the GEM Listing Rules must be sent to Shareholders in connection with the meeting at which their approval will be sought.
  - (iv) subject to paragraph (i) above, the Company may also seek separate Shareholders' approval for granting Options beyond the Scheme Mandate Limit to Participants specifically identified by the Company before the aforesaid shareholders' meeting where such approval is sought. A circular must be sent to Shareholders containing a generic description of the specified Participants, the number and terms of the Options to be granted, the purpose of granting Options to the specified Participants, how the terms of such Options serve such purpose and such other information required by the GEM Listing Rules.
  - (v) the total number of Shares issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time. Any further grant of Options to such Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, must be subject to shareholders' approval with such Participant and his or her associates (as defined in the GEM Listing Rules) abstaining from voting. A circular must be sent to the Shareholders disclosing the identity of the Participant, the number and terms of the Options granted and to be granted and such other information as required under the GEM Listing Rules. The number and terms (including the subscription price) of Options to be granted to such

Participant must be fixed before the shareholders' approval is sought and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

### (e) Grant of Options

Any offer of Options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, no Option may be granted during the period of one month immediately preceding the earlier of:

- (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with Rule 17.48 of the GEM Listing Rules) for the approval of the Company's results for any year, half-year or quarter-year period; and
- (ii) the deadline for the Company to publish its quarterly, interim or annual results announcements under the GEM Listing Rules;

and ending on the date of the results announcement.

### (f) Terms and Conditions of Options

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period but may not be exercised after the expiry of ten years from the Commencement Date. The Board may in the letter containing the offer made to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an Option during the Option Period including (but not limited to), if appropriate:

- (i) the minimum period for which all or part of an Option may be exercised;
- (ii) performance targets which must be achieved before the Options can be exercised.

### (g) Grant of Options to connected person

The grant of Options to a Director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates requires the approval of the independent non-executive Directors (excluding an independent non-executive Director who is the Grantee of the Options). Where any grant of Options to a substantial shareholder (as that term is defined in the GEM Listing Rules) or an independent non-executive Director or their respective associates will result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the grant to exceed:

- (i) in aggregate 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

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such grant of Options must be subject to approval by the Shareholders taken on a poll and a circular must be sent to the Shareholders. All connected persons (as defined in the GEM Listing Rules) of the Company must abstain from voting, except that any connected person may vote against the resolution provided that his intention to do so has been stated in the circular to Shareholders seeking their approval.

The abovenamed circular must contain the following:

- (i) details of the number and terms of the Options (including the subscription price) to be granted to each Participant which must be fixed before the relevant approval of the Shareholders and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Options in question) to the independent shareholders as to voting;
- (iii) information relating to any Directors who are trustees of the Share Option Scheme or have a direct or indirect interest in the trustees; and
- (iv) all other information as required under the GEM Listing Rules.

The requirements for the granting of Options to a Director or chief executive of the Company set out above do not apply where the Participant is only a proposed director or chief executive of the Company.

#### (h) Rights are personal to grantee

An Option is personal to the Grantee and is not assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Option.

(i) Rights on ceasing employment for other reasons

If the Grantee who is an Employee ceases to be an Employee for any reason other than on his or her death or the termination of his or her employment on one or more of the grounds specified in paragraph (o)(v) below, the Grantee may exercise the Option within three months following the date of cessation up to the Grantee's entitlement at the date of cessation (to the extent not already exercised). The date of cession of employment shall be the last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not.

(j) Rights on death

In the event the Grantee who is an Employee dies before exercising the Option in full and none of certain events which would be a ground for termination of his or her employment under paragraph (o)(v) below arises, the legal personal representative(s) of the Grantee shall be entitled within a period of 12 months from the date of death to exercise the Option up to the entitlement of the Grantee as at the date of death (to the extent not already exercised).

### (k) Effects of alterations to capital

In the event of any alteration in the capital structure of the Company (by way of capitalization issue, rights issue, sub-division or consolidation of shares or reduction of the capital) whilst any Option remains exercisable, such corresponding alterations (if any) shall be made to give a Grantee the same proportion of the equity capital as that to which that Grantee was previously entitled. In respect of any such adjustments other than those made on a capitalization issue, an independent financial advisor of the Company or the auditors of the Company shall certify in writing to the Board that the adjustments satisfy the requirements of rule 23.03(13) of the GEM Listing Rules and the note thereto. No alteration should be made the effect of which would be to enable a Share to be issued at less than its nominal value or which would change the proportion of the issued share capital of the Company for which any Grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

### (1) Rights on general offer

- (i) In the event of a general offer (otherwise than by a scheme of arrangement) being made to all the Shareholders (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) to acquire all or part of the issued Shares and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Grantee (or his or her legal personal representatives) shall be entitled to exercise the option in full (to the extent not already exercised even though the Option Period has not come into effect during the occurrence of the general offer) at any time within one month after the date on which the offer becomes or is declared unconditional).
- (ii) In the event of a general offer, by way of scheme of arrangement, being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the Grantee (or his or her legal personal representatives) may thereafter (but before such time as shall be notified by the Company) exercise the Option (to the extent not already exercised) to its full extent or to the extent specified in such notice.

#### (m) Rights on a compromise or arrangement

Other than a scheme of arrangement contemplated in sub-paragraph (l)(ii) above, in the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the Grantee (or his or her personal representatives) may by notice in writing to the Company accompanied by the remittance for the subscription price in respect of the relevant Option (such notice to be received by the Company not later than four business days prior to the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and register the Grantee as holder thereof.

### (n) Rights on winding up

In the event a notice is given by the Company to the Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee (or his or her legal personal representatives) may by notice in writing to the Company (such notice to be received by the Company not later than four business days prior to the proposed Shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

#### (o) Lapse of Option

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in paragraphs (i), (j), (n) respectively;
- (iii) subject to the compromise or arrangement becoming effective, the expiry of the period referred to in paragraph (m) above;
- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (l)(ii) above;
- (v) the date on which the Grantee who is an Employee ceases to be an Employee by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily;
- (vi) the date of the commencement of the winding-up of the Company;
- (vii) the date on which the Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any other person over or in relation to any Option in breach of the Share Option Scheme;
- (viii) the expiry of the period referred to in paragraph (l)(i) provided that if any court of competent jurisdiction makes an order the effect of which is to prevent the offeror from acquiring Shares in the offer, the relevant period within which Options may be exercised shall not begin to run until the discharge of the order in question or unless the offer lapses or is withdrawn before that date; and
- (ix) the occurrence of such event or expiry of such period as may have been specifically provided for in the Offer (if any), unless otherwise resolved to the contrary by the Board.

### (p) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an Option will be subject to the Company's memorandum of association and bye-laws is amended from time to time, and will rank pari passu with the fully paid Shares in issue on the date of exercise of the Option and in particular will rank in full for all dividends or other distributions declared paid or made on or after the date of exercise of the Option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of exercise of the Option.

Unless the context otherwise requires, references to "Shares" in the Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a subdivision consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

### (q) Cancellation of Options granted

Any Options granted but not exercised may be cancelled if the Grantee so agrees. If such cancellation has been approved by Shareholders of the Company in general meeting, Options may be re-issued provided that the re-issued Options shall only be granted in compliance with the terms of the Share Option Scheme and within the Scheme Mandate Limit (as defined in paragraph (d) above) (as refreshed from time to time).

### (r) Period of Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing from the Listing Date (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Share Option Scheme). After termination, no further Options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and Options which are granted during the life of the Share Option Scheme and remain unexpired may continue to be exercisable in accordance with their terms of issue.

### (s) Alteration to Share Option Scheme

- (A) The Share Option Scheme may be altered in any respect by a resolution of the Board, save that the provisions of the Share Option Scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of Participants and Grantees except with the prior approval of the Shareholders in general meeting.
- (B) Any alteration to the terms and conditions of the Share Option Scheme, which is of a material nature or any change to the terms of Options granted, shall be approved by the Shareholders, save where such alteration takes effect automatically under the existing terms of the Share Option Scheme.
- (C) Any change to the authority of the Board in relation to any alternation to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

### (t) Termination of the Share Option Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Options complying with the provisions of Chapter 23 of the GEM Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

### (u) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the GEM Listing Committee granting approval of the listing of and permission to deal in any Shares to be issued pursuant to the exercise of Options (subject to an initial limit of 10% of the Shares in issue, or 78,000,000 Shares, on the Listing Date), and
- (ii) the commencement of dealings in the Shares on GEM.

### Present status of the Share Option Scheme

As at the date of his prospectus, no option has been granted or agreed to be granted. Application has been made to the GEM Listing Committee for the approval of the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of options under the Share Option Scheme.

### 15. Sotas Option

Pursuant to a deed of novation dated 28th November, 2002, made between GDC Holdings Limited (a wholly-owned subsidiary of the Company), GDC and Sotas Limited, GDC transferred the loans together with outstanding interest which it owed to Sotas Limited in an aggregate amount of HK\$7,859,616 to GDC Holdings Limited by way of novation. As the deed further provided for GDC and GDC Holdings Limited to undertake to, prior to the Listing Date, issue to Sotas Limited and/or any of its designates, share options to subscribe for new Shares in replacement of certain options previously issued by GDC to Sotas Limited, the Company has on 5th June, 2003 granted to Sotas Limited the Sotas Option. The Sotas Option represents part of the terms of the original shareholders' loan agreement dated 25th January, 2002.

The Sotas Option entitles the holder thereof to purchase 504,870 Shares at an aggregate exercise price of US\$600,000 (equivalent to HK\$4,680,000), with an option period of 36 months commencing from the Listing Date and is exercisable upon 10 days prior written notice.

### **OTHER INFORMATION**

#### Estate duty and tax indemnity

Raymond Neoh, Anthony Neoh and Upflow Holdings Limited ("Indemnifiers") have each given joint and several indemnities (the document referred to in sub-paragraph (l) of the paragraph headed "Summary of material contracts" in this appendix V) in connection with, inter alia, any liability for Hong Kong estate duty which might be payable by any member of the Group, by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any

## STATUTORY AND GENERAL INFORMATION

member of the Group; and any taxation and penalty which might be payable by any member of the Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring up to the date on which the New Issue becomes unconditional, save:

- (i) to the extent that provision has been made for such taxation or claims in the unaudited management accounts of GDC China Limited, GDC Entertainment Limited and GDC Technology Limited for the year ended 31st December, 2000 and 2001, the audited accounts of GDC Technology Pte Limited for the year ended 31st December, 2001, the audited accounts of IDMT for the years ended 31st December, 2000 and 2001, the unaudited management accounts of the Group for the period from 1st January, 2002 to 31st August, 2002 and any previous audited accounts of any member of the Group ("Accounts");
- (ii) the liability for such taxation which would not have arisen but for any act or omission by any member of the Group voluntarily effected without the prior written consent or agreement of the Indemnifiers (such consent or agreement not to be unreasonably withheld or delayed), otherwise than in the ordinary course of business before the date of the New Issue or carried out, made or entered into pursuant to a legally binding commitment created on or before the date of the New Issue;
- (iii) the liability for which any member of the Group is primarily liable as a result of transactions in the ordinary course of normal day-to-day operations;
- (iv) to the extent that such taxation or claim arises or is incurred as a consequence of any retrospective change in the law or practice coming into force after 31st December, 2002 or to the extent such taxation arises or is increased by an increase in rates of taxation after the date that the New Issue becomes unconditional with retrospective effect;
- (v) to the extent that such taxation or liability is discharged by another person and that members of the Group are not required to reimburse such person in respect of the discharge of the taxation or liability; and
- (vi) to the extent of any provision or reserve for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provisions or reserve applied pursuant to this clause to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

### Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

### Sponsor

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

An associate of the Sponsor and the Lead Manager received finder's fees on funds raised via the New Issue and Pre-Listing Investors at the rate of 3.75%.

### **Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately US\$6,000 (equivalent to approximately HK\$46,800), and are payable by the Company.

### Promoter

The promoter of the Company is Mr. Raymond Neoh. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoter in connection with the New Issue or related transactions described in this prospectus within the two years preceding the date of this prospectus.

### **Qualification of experts**

The following are the qualifications of the experts who have given opinions or advice which and contained in this prospectus:

Experts	Qualifications
Asia Investment Capital	a deemed licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and an approved sponsor for listing on GEM
PricewaterhouseCoopers	Certified Public Accountants
Conyers Dill & Pearman	Bermuda barristers and attorneys
Grant Sherman Appraisal Limited	Professional valuers
Zhong Zi Law Office	PRC lawyers

### **Consents of experts**

Each of Asia Investment Capital, PricewaterhouseCoopers, Conyers Dill & Pearman, Grant Sherman Appraisal Limited and Zhong Zi Law Office has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion (as the case may be) and/or the references to its name included herein in the form and context in which it is respectively included.

### **Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

## Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) no founders, management or deferred Shares of the Company have been issued or agreed to be issued;
- (d) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been paid or granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
- (e) save for the finder's fees (representing an arranger's fee) paid to an associate of the Sponsor and the Lead Manager in respect of the investments from the Pre-Listing Investors, within the two years preceding the date of the prospectus, no commission has been paid or payable (not including commission to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in or debentures of the Company;
- (f) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 24 months preceding the date of this prospectus;
- (g) there has been no material adverse change in the financial position or prospects of the Group since 31st January, 2003 (being the date to which the latest audited combined financial statements of the Group were made up);
- (h) no convertible debt securities have been issued or agreed to be issued;
- (i) no securities of the Company is listed or proposed to seek listing in any other stock exchange;
- (j) none of Asia Investment Capital, PricewaterhouseCoopers, Conyers Dill & Pearman, Grant Sherman Appraisal Limited and Zhong Zi Law Office:
  - (i) is interested beneficially or non-beneficially in any shares in any members of the Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any members of the Group or is an officer or servant or a partner of or an employee of or officer or servant of any member of the Group;
- (k) All necessary arrangements have been made to enable the Shares to be admitted into CCASS; and
- (1) the New Issue does not involve any sale shares.

### DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES AND AVAILABLE FOR INSPECTION

### DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the White and Yellow Application Forms, the written consents and copies of the material contracts referred to in the sections headed "Consents of experts" and "Summary of material contracts" in appendix V to this prospectus and a statement of adjustments to the accountants' report set out in Appendix I to this prospectus prepared by PricewaterhouseCoopers respectively. The documents attached to the copy of this prospectus which will be delivered to the Registrar of Companies in Bermuda are copies of the White and Yellow Application Forms.

### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Gallant Y.T. Ho & Co. at 4th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including 6th August, 2003:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the accountants' report on the Group prepared by PricewaterhouseCoopers, the text of which is set out in appendix I to this prospectus;
- (c) such audited accounts as have been prepared for the companies comprising the Group for the two years ended 31st December, 2002;
- (d) the statement of adjustments to the accountants' report as set out in appendix I to this prospectus prepared by PricewaterhouseCoopers;
- (e) the valuation report prepared by Grant Sherman Appraisal Limited relating to the property interests of the Group referred to in appendix II to this prospectus;
- (f) the rules of the Share Option Scheme;
- (g) the Companies Act;
- (h) the material contracts referred to in the paragraph headed "Summary of material contracts" in appendix V to this prospectus;
- (i) the service contract referred to in the paragraph headed "Particulars of service contract" in appendix V to this prospectus;
- (j) the written consents referred to in the paragraph headed "Consents of experts" in appendix V to this prospectus;
- (k) a letter of advice prepared by Conyers Dill & Pearman referred to in appendix IV to this prospectus, summarising certain aspects of Bermuda company law; and
- (l) the valuation report prepared by Grant Sherman Appraisal Limited relating to the valuation of *Thru the Moebius Strip* referred to in appendix III to this prospectus.