

PROSPECTUS



Colorland Animation Ltd.

(Incorporated in Bermuda on 10 August 2000)

Manager, Underwriter and Placement Agent



VICKERS BALLAS

Vickers Ballas & Co. Pte Ltd

(Incorporated in the Republic of Singapore)

COLORLAND PORTFOLIO



Blinky Bill



Rudolph the Red-Nosed Reindeer & the Island of Misfit Toys



Yolanda



Fantaghiro



Wheel Squad



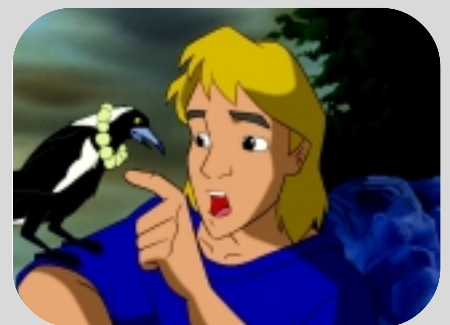
Tabaluga



Rudolph the Red-Nosed Reindeer:
The Movie



Classic Gold



Adventures of Sam



Skippy



Flipper and Lopaka



Toonimals

Adventures of Sam ©1998 Australian Film Finance Corporation and Southern Star Entertainment Pty Limited. *Blinky Bill* ©Yoram Gross-EM.TV Pty Ltd. *Classic Gold* ©Burbank Animation Studios / Bridgestar Entertainment. *Fantaghiro* ©BRB Internacional, S.A. 1999. *Flipper and Lopaka* ©AFC/EM/YG. *Rudolph the Red-Nosed Reindeer-The Movie*, *Rudolph the Red-Nosed Reindeer & the Island of Misfit Toys* ©2001 The Rudolph Company, L.P. *Rudolph the Red-Nosed Reindeer* ®Reg. U.S. Pat &™Off. The Rudolph Company, L.P. under license to GT Merchandising and the Licensing Corp. *Skippy* ©Yoram Gross-EM.TV Pty Ltd. *Tabaluga* ©Yoram Gross-EM.TV Pty Ltd. *Toonimals* ©BRB Internacional, S.A. 2000. *Wheel Squad* ©France Animation, Praxinos, M6 and Colorland Animation. *Yolanda* ©BRB Internacional, S.A. 1999.

PROSPECTUS DATED 25 MAY 2001

We have applied to the Singapore Exchange Securities Trading Limited ("SGX-ST") for permission to deal in and for quotation of all our ordinary shares of par value HK\$0.40 each ("Shares") in the capital of Colorland Animation Ltd. ("Company") already issued as well as the new Shares (the "New Shares") which are the subject of the Invitation (as defined herein). Such permission will be granted when we have been admitted to the Official List of the SGX-ST. **The dealing in and quotation of the Shares will be in Singapore dollars.**

Acceptance of applications will be conditional upon completion of the Invitation, which is subject to certain conditions, including the SGX-ST granting permission to deal in and for quotation of all of our existing issued Shares as well as the New Shares. If completion of the Invitation does not occur because the SGX-ST's permission is not granted or for any other reasons, monies paid in respect of any application will be returned at your own risk, without interest or any share of revenue or other benefit arising therefrom and you will not have any claim against us or the Manager.

The SGX-ST assumes no responsibility for the correctness of any of the statements or opinions made or reports contained in this Prospectus. Admission to the Official List of SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company and our subsidiaries, our Shares or the New Shares.

We have lodged a copy of this Prospectus with the Registrar of Companies and Businesses in Singapore who takes no responsibility for its contents.

A copy of this Prospectus, together with copies of the Application Forms, has been filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority has given its consent to the issue of the New Shares pursuant to the Invitation on the terms referred to in this Prospectus. In accepting this Prospectus for filing and in granting such permission, the Registrar of Companies in Bermuda and the Bermuda Monetary Authority accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed herein or any of the other documents referred to in this Prospectus.

INVESTING IN THE SHARES INVOLVES RISKS WHICH ARE DESCRIBED IN THE "RISK FACTORS" BEGINNING ON PAGE 22 OF THIS PROSPECTUS.



Colorland Animation Ltd.

(Incorporated in Bermuda on 10 August 2000)

Invitation in respect of 20,000,000 New Shares with par value of HK\$0.40 each as follows:-

- I. **1,500,000 Offer Shares at S\$0.20 each by way of public offer;**
- II. **18,500,000 Placement Shares by way of placement, comprising:-**
 - (a) **17,000,000 Placement Shares at S\$0.20 for each Placement Share for applications by way of Application Forms; and**
 - (b) **1,500,000 Placement Shares at S\$0.20 for each Placement Share for applications through the Internet,**

payable in full on application.

Manager, Underwriter and Placement Agent



VICKERS BALLAS

Vickers Ballas & Co. Pte Ltd

(Incorporated in the Republic of Singapore)

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CORPORATE INFORMATION

- BOARD OF DIRECTORS** : Sek Siu Ming (Chairman and Chief Executive Officer)
Luo Hui Ling (Chief Operating Officer)
Beni Prananto
Lai Ka Tim
Jackson Lee @ Li Chik Sin
Chan Wing Leong
- JOINT COMPANY SECRETARIES** : Chan Chow Pheng, ACIS LLB (Hons)
Ira Stuart Outerbridge III, FCIS
- REGISTERED OFFICE** : Clarendon House
2 Church Street
Hamilton HM 11
Bermuda
- MANAGER, UNDERWRITER AND
PLACEMENT AGENT** : Vickers Ballas & Co. Pte Ltd
30 Raffles Place #07-00
Caltex House
Singapore 048622
- REPORTING ACCOUNTANTS** : Moore Stephens
Certified Public Accountants
11 Collyer Quay #10-02 The Arcade
Singapore 049317
- JOINT AUDITORS** : Moore Stephens
Certified Public Accountants
905 Silvercord Tower 2
30 Canton Road
Tsimshatsui Kowloon, Hong Kong
- Moore Stephens
Certified Public Accountants
11 Collyer Quay #10-02 The Arcade
Singapore 049317
- SOLICITORS TO THE INVITATION** : Allen & Gledhill
36 Robinson Road #18-01
City House
Singapore 068877
- LEGAL ADVISORS TO THE COMPANY ON
BERMUDA LAW** : Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place, Central
Hong Kong
- LEGAL ADVISORS TO THE COMPANY ON
HONG KONG LAW** : Angela Wang & Co
24/FI Entertainment Building
30 Queen's Road, Central
Hong Kong

- LEGAL ADVISORS TO THE COMPANY ON PRC LAW** : Beilin & Concord Law Firm
Room 5H,
Zhao Feng Universe Building,
1800 Zhong Shan Xi Lu,
Shanghai 200233,
People's Republic of China
- REGISTRAR FOR THE INVITATION & SINGAPORE SHARE TRANSFER AGENT** : M&C Services Private Limited
138 Robinson Road
#17-00 Hong Leong Centre
Singapore 068906
- BERMUDA SHARE REGISTRAR & SHARE TRANSFER OFFICE** : The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

DEFINITIONS

In this Prospectus and the accompanying Application Forms, unless the context otherwise requires, the following terms or expressions shall have the following meanings:–

Companies within the Group

- “Colorland” or the “Company” : Colorland Animation Ltd., a company incorporated in Bermuda
- “Colorland HK” or “Colorland Hong Kong” : Colorland Animation Productions Limited, a company incorporated in Hong Kong
- “Colorland (Shenzhen)” : Colorland Animation Productions (Shenzhen) Limited, a company incorporated in PRC
- “Group” : Our Company and its subsidiaries, following the completion of the Restructuring Exercise treated for the purposes of this Prospectus, as if it had been in place since 1 January 1995

Other Companies

- “Animation Productions” : Animation Productions Ltd
- “Burbank” : Burbank Animation Studios Pty Ltd
- “France Animation” : France Animation S.A.
- “Southern Star” : Southern Star Entertainment Pty Ltd
- “Tundra Productions” : Tundra Productions, Inc.
- “Yoram Gross” : Yoram Gross-EM.TV Pty Ltd (formerly known as Yoram Gross Film Studios Pty Ltd)

Animation Productions

- “Bible Video Series” : The Greatest Heroes and Legends of the Bible Series (Tundra Productions/GoodTimes Entertainment)
- “Blinky Bill II” : Blinky Bill’s Extraordinary Excursion (Yoram Gross)
- “Canary Islands” : The History of the Canary Islands (Animation Productions)
- “Elliot Mouse” : The Untouchables of Elliot Mouse (Animation Productions)
- “Rudolph 2D” : Rudolph the Red-Nosed Reindeer: The Movie (Tundra Productions/GoodTimes Entertainment)
- “Rudolph 3D” : Rudolph the Red-Nosed Reindeer & The Island of Misfit Toys (Tundra Productions/GoodTimes Entertainment)
- “Sam” : The Adventures of Sam (Southern Star)
- “The Explorer” : Once Upon a Time ... The Explorers (Procidis)
- “Tom Sawyer” : The Adventures of Tom Sawyer (Tundra Productions)

General

“Act” or “Companies Act”	: The Companies Act, Chapter 50 of Singapore
“Application Forms”	: Official printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
“Application List”	: List of applications for the subscription of the New Shares
“ATM”	: Automated teller machine of a Participating Bank
“ATM Applications”	: Application for Offer Shares made through the ATM of any of the Participating Banks in accordance with the terms and conditions of this Prospectus
“Bermuda Act”	: The Companies Act 1981 of Bermuda
“Board”	: Board of directors of our Company
“Bonus Issue”	: The bonus issue of 17,220,097 ordinary shares of HK\$0.40 each fully paid in the capital of our Company prior to the Invitation by way of capitalising the share premium of the Company
“Bye-laws”	: Bye-laws of our Company as amended, supplemented or modified from time to time
“CDP” or “Depository”	: The Central Depository (Pte) Limited
“CPF Board”	: Central Provident Fund Board
“Directors”	: The directors of our Company as at the date of this Prospectus
“Electronic Applications”	: Applications for the Offer Shares made by way of ATM Applications or applications for Internet Placement Shares made by way of Internet Applications
“EPS”	: Earnings per Share
“Executive Officers”	: The executive officers of our Group as at the date of this Prospectus
“FY”	: The financial year ended or ending 31 December
“Internet”	: An open global network of inter-connected public and private computer networks that utilises a common communications protocol
“Internet Applications”	: Applications for Internet Placement Shares made through the Internet IPO Website
“Internet IPO Website”	: The Internet trading website of the Internet Stockbroker
“Internet Placement Shares”	: The 1,500,000 Placement Shares for which the Company invites applications to subscribe through the Internet IPO Website, subject to and on the terms and conditions of this Prospectus
“Internet Stockbroker”	: Vickers Ballas
“Invitation”	: Invitation by the Company to subscribe for the New Shares, upon the terms and subject to the conditions set out in this Prospectus
“Issue Price”	: S\$0.20 for each New Share

“Market Day”	:	A day on which the SGX-ST is open for trading in securities
“Memorandum”	:	Memorandum of Association of our Company
“NASDAQ”	:	National Association of Securities Dealers Automated Quotation System
“New Shares”	:	The 20,000,000 new Shares to be issued pursuant to the Invitation
“NTA”	:	Net tangible assets
“Offer”	:	The offer by our Company of the Offer Shares to the public in Singapore for subscription at the Issue Price upon the terms and subject to the conditions set out in this Prospectus
“Offer Shares”	:	The 1,500,000 New Shares which are the subject of the Offer
“Participating Banks”	:	The Development Bank of Singapore Ltd (including its POSBank Services division); Keppel TatLee Bank Limited (“KTB”); and Oversea-Chinese Banking Corporation Limited (“OCBC”) Group (comprising OCBC and Bank of Singapore Limited)
“Placement”	:	The placement by the Company of the Placement Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus
“Placement Agent”	:	Vickers Ballas
“Placement Shares”	:	The 18,500,000 New Shares to be offered pursuant to the Placement
“PRC”	:	The People’s Republic of China
“Restructuring Exercise”	:	The restructuring exercise undertaken in connection with the Invitation, as described on page 58 of this Prospectus
“R&D”	:	Research and development
“SCCS”	:	Securities Clearing & Computer Services (Pte) Ltd
“Securities Account”	:	A securities account maintained by a depositor with CDP and does not include a securities sub-account
“Shares”	:	Ordinary shares of par value HK\$0.40 each in the capital of the Company
“Singapore Share Transfer Agent”	:	M&C Services Private Limited
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Stock Split”	:	The sub-division of every two ordinary shares of HK\$1.00 each into five ordinary shares of HK\$0.40 each in the authorised and issued and paid-up capital of the Company
“Vickers Ballas” or “Manager” or “Underwriter”	:	Vickers Ballas & Co. Pte Ltd
“A\$”	:	Australian Dollar
“C\$”	:	Canadian Dollar
“EUR”	:	Euro

“FrF”	:	French Franc
“HK\$” and “HK cents”	:	Hong Kong Dollars and cents, respectively
“RMB”	:	Chinese Renminbi
“UK”	:	United Kingdom
“US” or “USA”	:	United States of America
“US\$”	:	United States Dollar
“S\$” and “cents”	:	Singapore Dollars and cents, respectively
“sq m” or “m ² ”	:	Square metre
“%” or “per cent.”	:	Per centum

The terms “depositor”, “depository agent” and “depository register” shall have the meanings ascribed to them respectively in Section 130A of the Act.

References in this Prospectus to the “Group”, “we”, “our” and “us” refer to our Company and its subsidiaries.

Any discrepancies in tables included herein between the amounts listed and the totals thereof are due to rounding; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons, where applicable, shall include corporations.

Unless otherwise indicated, any reference in this Prospectus and the Application Forms to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act or any statutory modification thereof and used in this Prospectus and the Application Forms shall, where applicable, have the meaning assigned to it under the said Act or statutory modification, as the case may be. Any word defined under the Bermuda Act, the Act or any statutory modification thereof and used in this Prospectus and the Application Forms shall have the meaning assigned to it under the Bermuda Act, the Act or any statutory modification thereof, as the case may be.

Any reference in this Prospectus and the Application Forms to Shares being allotted to an applicant includes allotment to CDP for the account of that applicant.

Any reference to a time and dates in this Prospectus shall be a reference to Singapore time and dates unless otherwise stated.

Unless otherwise stated, all financial information contained in this Prospectus is based on the consolidated financial statements contained in the “Accountants’ Report”.

Unless otherwise stated, translations between the Hong Kong dollar and the Singapore dollar are made at the exchange rate of HK\$4.35 = S\$1. Such translations are provided solely for the convenience of Singapore-based investors and should not be construed as representations that the Hong Kong dollar amounts actually represent such Singapore dollar amounts or could be converted in Singapore dollars at the rate indicated.

GLOSSARY OF TECHNICAL TERMS

- “2D” : 2-dimensional. It refers to the environment in which the animation is created. 2D animated objects has height and width but no depth.
- “3D” : 3-dimensional. It refers to the environment in which the animation is created. The computer creates an environment that mirrors real-world space in three dimensions, which is mathematically represented as X, Y, and Z co-ordinates. This allows you to create an object height, width and depth. Once that object is created, the computer allows you to move around in 3D space, and view that object from any direction.
- “animation” : The process of creating and recording images that change over time, whether in 2D or 3D model. The illusion of animation, or movement, is created by flashing a series of still images at a certain rate.
- “assistant animators” : Assistants to the animators who are tasked with in-betweening. These assistants are then promoted to animators after several years.
- “background” : A watercolour or acrylic painting forming the backdrop of a scene that is scanned into the computer. They can also be drawn by the computer using graphic software.
- “camerawork” : A manual process in which a photograph of the cel with hand-painted background is taken for each frame of the animation. This method of animation has since been gradually replaced with increased use of computers and specialised animation software.
- “cel” : A piece of cellulose acetate (flexible transparent plastic) film on which an image has been inked or copied and then hand-painted. The finished frame is placed over a painted background and photographed in sequence to create the illusion of motion. This method of animation has since been gradually replaced with increased use of computers and specialised animation software.
- “cel-inking” : Colouring a piece of transparent plastic film with ink/paint.
- “CG” : Computer graphics. An all-encompassing term that includes everything related to producing digital graphics.
- “CGI” : Computer generated imagery. A broad term referring to any digital image output.
- “compositing” : Creating an image by combining two or more levels of images such as the background and characters together.
- “digital Betacam recorders” : Professional video tape recorders.
- “in-betweening” : The drawing of the sequence of the “in-between” or “breakdown” images between a set of key animation drawings representing a character’s movements. Key frames are drawn by the chief animators while the less important frames between the key frames are drawn by the assistant animators.

- “layout” : Drawing the path of movement of characters, the background in relation to the characters and deciding upon camera positioning and movement.
- “line test” : It is used to test a few rough drawings at an early stage of production, or to create an edited version of the pencil drawings to be used in the final film. The individual drawings are shot together in sequence on film or on video to create a film for the director in which the animation and timing can be tested.
- “MIPCOM” : Marche International des Films et des Programmes Pour la Television, la Video, le Cable et le Satellite (International Film and Program Market for Television, Video, Cable and Satellite). An annual event since 1985, MIPCOM serves the international TV industry professionals by bringing together producers, distributors, broadcasters, webcasters, worldwide cable and satellite operators, buyers, co-producers and investors.
- “MIPTV” : Marche International des Programmes de Television (International Market for Television Programs). MIPTV is an event held in Cannes, France which provides an international trading floor for the buying and selling of television programming, developing interactive services and digital content programming, forging new alliances as well as raising venture capital.
- “NTSC” : The National Television Standards Committee, a body which defines the television video signal format used in the USA. The term is also used to refer to the video signal format that is defined by the National Television Standards Committee.
- “PAL” : Phase Alternating Line, the video signal standard used in Western Europe (excluding France) and Asia.
- “rendering” : This is a technical process that takes place after Composition or on completion of a level of animation. It is the software program’s process of combining all the data of each frame.
- “scene” : It refers to the arrangement and setting of objects, lights, camera, motions, effects, and resolution of a final image or sequence of images.
- “special effects” : Artistic effects added to a film or video production in order to enhance the production by creating drama, enhancing the mood or furthering the story. These may vary from the mixing of several video images together to sophisticated digital effects and three-dimensional effects.
- “storyboard” : A series of panels illustrating key visual stages (shots, scenes) of a planned production, accompanied by the corresponding audio information.

PURCHASE BY OUR COMPANY OF ITS OWN SHARES

Under the laws of Bermuda, a company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Our Company has such power to purchase its own shares under paragraph 7(2) of its Memorandum of Association. Such power to purchase our own shares shall, subject to the Bermuda Act, our Memorandum of Association and prior approval from our shareholders, be exercisable by the Directors upon such terms and subject to such conditions as they think fit, in accordance with Bye-law 3(2) of our Company's Bye-laws.

Under the laws of Bermuda, such purchases may be effected out of the capital paid-up on the purchased shares or out of the funds of our Company otherwise available for dividend or distribution or out of proceeds of a fresh issue of shares made for the purpose. Any premium payable on such a purchase over the par value of the shares to be purchased must be provided for out of the funds of our Company otherwise available for dividend or distribution or out of our Company's share premium account. Any amount due to a shareholder on a purchase of our Shares may (1) be paid in cash; (2) be satisfied by the transfer of any part of our undertaking or property having the same value; or (3) be satisfied partly under (1) and partly under (2). 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 we are, or after the purchase would be, unable to pay our liabilities as they become due. The shares so purchased will be treated as cancelled and our Company's issued, but not its authorised capital, will be diminished accordingly.

For further details, please see "Purchase of shares and warrants by a company and its subsidiaries" in Appendix 3 on page 137 of this Prospectus.

Our Company currently has no intention to purchase its shares after listing. However, if it decides to do so later, it will seek shareholders' approval in accordance with the bye-laws of our Company and the rules of the SGX-ST. We will make prompt public announcements of any such share purchase and have also given an undertaking to the SGX-ST to comply with all requirements that the SGX-ST may impose in the event of any such share purchase.

ATTENDANCE AT GENERAL MEETINGS

The Company is incorporated in Bermuda and operates subject to Bermuda law. Bermuda law recognises only the registered shareholders of a Bermuda-incorporated company and as such, persons holding shares in the capital of a Bermuda-incorporated company through the CDP would not be recognised as the shareholders of such company. Consequently, such shareholders would not have a right to attend and to vote at general meetings convened by such company. In order for such persons to attend and vote at such general meetings, the CDP would normally appoint such persons as their proxies to attend and vote at such meetings. The proxy form appointing such persons as the proxies of the CDP would be enclosed with the circular to be sent to the shareholders of the company which contains a notice convening such general meeting. Such proxy form would be required to be completed by the shareholder and deposited within the time frame stipulated in the circular, in order for such shareholder to attend and vote at the general meeting.

APPLICATION OF SINGAPORE TAKE-OVER LAWS AND REGULATIONS

Sections 213, 214 and 215 of the Act, the Tenth Schedule to the Act and the Singapore Code on Take-overs and Mergers (1985 Edition) (collectively the “Singapore Take-over and Merger Laws and Regulations”) apply only to take-over offers for public companies incorporated in Singapore and not to companies incorporated outside Singapore. Therefore, the Singapore Take-over and Merger Laws and Regulations do not apply to take-over offers for our Company as it is incorporated in Bermuda.

However, Bye-law 168 of the Bye-laws of our Company provides that for so long as the Shares are listed on the Designated Stock Exchange (as defined in the Bye-laws), the Singapore Take-over and Merger Laws and Regulations, including any amendments, modifications, revisions, variations or re-enactments thereof, shall apply to all take-over offers in respect of Shares in our Company. Accordingly, members of our Company who make take-over offers in respect of Shares in our Company must comply with the Singapore Take-over and Merger Laws and Regulations. However, it is uncertain whether this can be implemented in practice. As Bye-law 168 only binds the shareholders of our Company, a person (including a corporation) who is not a shareholder of our Company will not be bound to comply with the Singapore Take-over and Merger Laws and Regulations. This may affect you because in the event that a person (not being one of our shareholders), whether alone or together with parties acting in concert with him, acquires or gains control of up to 25% or 25% or more, of our Shares or, in the event that he already owns or controls 25% or more and not more than 50% of our Shares, and acquires an additional 3% of our Shares within any 12-month period or acquires or gains control of more Shares but resulting in a shareholding of less than 100% of our Shares, you may not be offered an opportunity to sell your Shares to such acquirer at the price he had paid for those shares.

Our Company’s substantial shareholders have undertaken to the SGX-ST that, as long as they continue to be the substantial shareholders of our Company, they will endeavour to persuade potential offerors to comply with the requirements of the Singapore Take-over and Merger Laws and Regulations in the event of any take-over offers for our Company.

SELLING RESTRICTIONS

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for the Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of any jurisdiction, except for the lodgement of this Prospectus in Bermuda and Singapore in order to permit a public offer of Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offer of Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by our Company and the Manager to inform themselves about, and to observe and comply with, any such restrictions.

DETAILS OF THE INVITATION

LISTING ON THE SGX-ST

Application has been made to the SGX-ST for permission to deal in, and for quotation of, all the Shares already issued as well as the New Shares on the SGX-ST. Such permission will be granted when our Company has been admitted to the Official List of the SGX-ST. Acceptance of applications will be conditional upon permission being granted to deal in, and for quotation of, all of the Shares already issued as well as the New Shares. Monies paid in respect of any application accepted will be returned, without interest or any share of revenue or other benefit arising therefrom and at the applicant's own risk, if the said permission is not granted.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, its subsidiaries, the Shares or the New Shares.

A copy of this Prospectus, together with copies of the Application Forms, has been lodged with, and registered by, the Registrar of Companies and Businesses in Singapore who takes no responsibility for its contents.

A copy of this Prospectus, together with copies of the Application Forms, has been filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority has given its consent to the issue of the New Shares pursuant to the Invitation on the terms referred to in this Prospectus. In accepting this Prospectus for filing and in granting such consent, the Registrar of Companies in Bermuda and the Bermuda Monetary Authority accept no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed herein or any of the other documents referred to in this Prospectus.

We have obtained approval from the Directors for this Prospectus. The Directors individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the facts contained in this Prospectus are true and accurate and not misleading, and that all expressions of opinion, intention and expectation contained herein are honestly held and made after due and careful consideration, that this Prospectus constitutes full and true disclosure of all material facts about the Invitation, our Group and Shares and that there are no other material facts the omission of which would make any statement in this Prospectus misleading.

The New Shares are offered for subscription solely on the basis of information contained and representations made in this Prospectus. No person is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by our Company or the Manager. Neither the delivery of this Prospectus and the Application Forms nor the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change in the affairs of our Company or our Group or any statements of fact or information contained in this Prospectus since the date of this Prospectus. Where such changes occur and are material or are required to be disclosed by law and/or the SGX-ST, we will make an announcement of the same to the SGX-ST and, if required, lodge a supplementary document or replacement document pursuant to Section 50A of the Singapore Companies Act and take immediate steps to comply with the requirements of Section 50A. All applicants should take note of any such announcement and, upon release of such an announcement, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to the future performance or policies of our Company or our Group.

Neither our Company nor Vickers Ballas is making any representation to any person regarding the legality of an investment in the Shares by such person under any investment or any other laws or regulations. No information in this Prospectus should be considered to be business, legal or tax advice. Each prospective investor should consult their own professional or other advisors for business, legal and tax advice regarding an investment in the Shares.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any persons other than the applicants in connection with their application for the New Shares or for any other purpose. This Prospectus does not constitute an offer of, or invitation or solicitation to subscribe for, the New Shares in any jurisdiction in which such offer or invitation or solicitation is unauthorised or unlawful nor does it constitute an offer or invitation or solicitation to any person to whom it is unlawful to make such offer or invitation or solicitation.

Copies of this Prospectus and the Application Forms and envelopes may be obtained on request, subject to availability, during office hours from:-

**Vickers Ballas & Co. Pte Ltd
30 Raffles Place #07-00
Caltex House
Singapore 048622**

and from members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST website <http://www.sgx.com>.

The Application List will open at 10.00 a.m. on 4 June 2001 and will remain open until 12.00 p.m. on the same day or for such further period or periods as the Directors may, in their absolute discretion decide, subject to any limitation under all applicable laws.

In the event of a change in the timing of the close of the Application List or the shortening or extension of the time period during which the Invitation is open, we will publicly announce the same:-

- (i) through a MASNET announcement to be posted on the Internet at the SGX-ST website <http://www.sgx.com>; and**
- (ii) through a paid advertisement in a local English newspaper, namely, The Straits Times.**

Applications should be received by 12:00 p.m. on 4 June 2001 or such later date and time as the Directors may, in consultation with the Manager, decide, subject to any limitations under all applicable laws.

INDICATIVE TIMETABLE FOR LISTING

In accordance with the SGX-ST's News Release of 28 May 1993 on the trading of initial public offering shares on a "when issued" basis, an indicative timetable is set out below for the reference of applicants.

Indicative date/time	Event
4 June 2001, 12.00 p.m.	Close of Application List
6 June 2001	Commence trading on a "when issued" basis
13 June 2001	Last day of trading on a "when issued" basis
14 June 2001	Commence trading on a "ready" basis
19 June 2001	Settlement date for all trades done on a "when issued" basis and for all trades done on a "ready" basis on 14 June 2001

The above timetable is only indicative as it assumes that (i) the closing of the Application List takes place on 4 June 2001, (ii) the date of admission of the Company to the Official List of the SGX-ST will be on 6 June 2001, (iii) the SGX-ST's shareholding spread requirement will be complied with and (iv) the New Shares will be issued and fully paid-up.

The actual date on which the Shares will commence trading on a "when issued" basis will be announced if and when it is confirmed by the SGX-ST.

The above timetable and procedure may be subject to such modifications as the SGX-ST may in its discretion decide, including the decision to permit trading on a "when issued" basis and the commencement date of such trading. The commencement of trading on a "when issued" basis will be entirely at the discretion of the SGX-ST. All persons trading in the Shares on a "when issued" basis, if implemented, do so at their own risk. In particular, persons trading in the Shares before their Securities Accounts are credited with the relevant number of Shares do so at the risk of selling Shares which neither they nor their nominees, if applicable, have been allotted or are otherwise beneficially entitled to. Such persons are also exposed to the risk of having to cover their net sell positions earlier if "when issued" trading ends sooner than the indicative date mentioned above. Persons who have a net sell position traded on a "when issued" basis should close their position on or before the first day of "ready" basis trading.

Investors should consult the SGX-ST's announcement on the "ready" listing date on the Internet (at the SGX-ST website <http://www.sgx.com>), INTV or the newspapers, or check with their brokers on the date on which trading on a "ready" basis will commence.

We will provide details of the results of the Invitation through:-

- (i) a MASNET announcement to be posted on the Internet at the SGX-ST website <http://www.sgx.com> on the day of the close of the Application List; and
- (ii) by way of a paid advertisement in a local English newspaper, namely, The Straits Times two days following the close of the Application List.

STRUCTURE OF INVITATION

This section should be read in conjunction with and is qualified in its entirety by reference to the section entitled “Terms and Conditions and Procedures for Applications” in Appendix 1 to this Prospectus.

The Invitation comprises:-

- (1) 1,500,000 Offer Shares at S\$0.20 each by way of public offer;
- (2) 18,500,000 Placement Shares by way of placement, comprising:-
 - (a) 17,000,000 Placement Shares at S\$0.20 for each Placement Share for applications by way of Application Forms; and
 - (b) 1,500,000 Placement Shares at S\$0.20 for each Placement Share for applications through the Internet,

payable in full on application.

The Invitation is open for applications by members of the public in Singapore, subject to and on the terms and conditions in this Prospectus (including Appendix 1). Application for the New Shares may be made using the following methods:-

- (i) Application for Offer Shares by way of printed Offer Shares Application Forms or ATM Applications

Applications for the Offer Shares may only be made by way of the printed Offer Shares Application Forms or through ATMs belonging to the Participating Banks (“ATM Applications”).

Only one application may be made for the benefit of a person in his own name for the Offer Shares.

An applicant (other than an approved nominee company) who has made an application for Offer Shares in his own name may not submit another separate application for Offer Shares whether by way of an Application Form or by way of an ATM Application, for any other person. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares by way of an Offer Shares Application Form may not make another separate application for Offer Shares by way of an ATM Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares either by way of an Offer Shares Application Form or by way of an ATM Application shall not make any separate application for Placement Shares either by way Placement Shares Application Forms or by way of an Internet Application. Such separate applications shall be deemed to be multiple applications and shall be rejected.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares shall be made available to satisfy applications for the Placement Shares, to the extent there are excess applications for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

Additional terms and conditions for the application of Offer Shares by way of Offer Shares Application Forms or ATM Applications are set out on pages 115 to 123 in Appendix 1 of this Prospectus.

(ii) Application for Placement Shares by way of Placement Shares Application Forms

An applicant who applies for the Placement Shares by way of a Placement Shares Application Form shall not make any separate application for the Placement Shares (using another Placement Shares Application Form or through the Internet IPO Website) or for the Offer Shares (using an Offer Share Application Form or by way of an ATM Application). Such separate applications will be deemed to be multiple applications and shall be rejected.

Investors may apply to subscribe for any number of Placement Shares in integral multiples of 1,000 Shares. In order to ensure a reasonable spread of shareholders, we have the absolute discretion to prescribe a limit to the number of Placement Shares to be allotted to any single applicant and/or to allot Placement Shares above or under such prescribed limit as we shall deem fit.

In the event of an under-subscription for the Placement Shares, that number of Placement Shares may be made available to satisfy applications for the Offer Shares, to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

Additional terms and conditions for the application of the Placement Shares by way of Placement Shares Application Forms are set out on page 117 in Appendix 1 of this Prospectus.

(iii) Electronic Applications for Placement Shares through the Internet IPO Website

As the Internet IPO Website gateway of the Internet Stockbroker may close before 12.00 p.m. on 4 June 2001, an applicant is advised to liaise with his Internet Stockbroker regarding the last date and time that the Internet Stockbroker is accepting applications through the Internet IPO Website gateway.

Each applicant may only submit one application for the Placement Shares through the Internet IPO Website of the Internet Stockbroker. An applicant who has submitted an application for the Internet Placement Shares to the Internet Stockbroker shall not make any separate application for the Placement Shares (using a Placement Shares Application Form) or for the Offer Shares (using an Offer Share Application Form or by way of an ATM Application). Such separate applications will be deemed to be multiple applications and shall be rejected.

Additional terms and conditions for the application of Internet Placement Shares through the Internet IPO Website are set out on pages 123 to 126 in Appendix 1 of this Prospectus.

Applicants of the Internet Placement Shares (a) must not be corporations, sole-proprietorships, partnerships, chops or any other business entities; (b) must be over the age of 21 years; (c) must not be undischarged bankrupts; (d) must apply for the Internet Placement Shares in Singapore; and (e) must be customers who maintain Internet trading accounts with the Internet Stockbroker. Investors who wish to apply for the Internet Placement Shares but do not have existing Internet trading accounts with the Internet Stockbroker should approach their Internet Stockbroker in person to open their Internet trading accounts.

In the event that the Internet Placement Shares are under-subscribed, that number of Internet Placement Shares under-subscribed shall be used to satisfy applications for the Placement Shares to the extent that there are excess applications for the Placement Shares as at the close of the Application List or to satisfy applications for the Offer Shares, to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

It is expected that successful applicants for Internet Placement Shares will be notified of the results of their application by way of an e-mail notification no later than the commencement of trading in the Shares.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this Prospectus. Since this summary does not contain all the information that you should consider before investing in our ordinary shares, it is advised that you read the entire Prospectus carefully before making an investment decision. This Prospectus contains forward-looking statements, which involve risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in "Risk Factors", the consolidated financial statements and the related notes.

OUR COMPANY

Colorland was incorporated as an exempted company with limited liability in Bermuda under the Bermuda Act on 10 August 2000 and has been carrying on business since the date of incorporation. The Group was formed as a result of the Restructuring Exercise as described under the "Restructuring Exercise" on page 58 of this Prospectus.

OUR BUSINESS

The Group, founded in 1991, is a 2D and 3D animation studio, which provides customers with a wide range of animation services.

We have produced animated television series, video productions and a full-length animated feature. Colorland has a list of international customers, comprising film producers from Australia, Europe and the USA. These customers include, *inter alia*:-

- Animation Productions (for *Toonimals* and *Yolanda*);
- France Animation (for *Wheel Squad*);
- Yoram Gross (for *Blinky Bill* and *Blinky Bill II*, *Flipper & Lopaka* and *Tabaluga 1&2 series*, and *Skippy*);
- Tundra Productions (for *Rudolph 2D*, *Rudolph 3D* and the *Bible Video Series*); and
- Burbank (for *Video Treasure* and *Classic Gold Video Series*).

Colorland has a team of 315 artists, animators and CGI production staff, as at 31 December 2000.

Located in Shenzhen, we are able to take advantage of competitive cost structures and the pool of available talent in PRC. Our 6,345 m² production studio in Shenzhen has over 130 workstations using Maya, Animo and other professional software, two 35mm film recorders using Cineon software, three video disc recorders and four digital Betacam recorders catering for desired outputs, whether in NTSC or PAL. For more information on our use of software, please refer to page 66 of this Prospectus.

As of 31 December 2000, we had a total of 348 employees. Colorland has produced the equivalent of some 550 half-hour episodes of 2D animation programming over the six years during the period 1995-2000.

OUR REVENUE

We derive our revenue primarily from the provision of animation services. We produce animation productions according to the contracts signed with our clients. These contracts are on a fixed price basis with stipulated time schedules.

The majority of our revenue and profits are mainly from the provision of 2D animation production services. We set up our 3D animation capabilities in FY 1999 with 45 of our professional staff. From FY 2000 onwards, we have started animation work on a 3D animation feature length video, *Rudolph 3D*.

Our international clients include companies from Europe (United Kingdom, France), Australia, the USA and Asia. Please refer to pages 38 and 39 of this Prospectus for a geographical revenue breakdown.

A discussion of our major customers are provided on page 67 of this Prospectus. For FY 1999 and FY 2000, customers which contributed to 5% or more of our revenues included Animation Productions, Burbank, Tundra Productions, Yoram Gross and France Animation.

Our results for the six financial years ended 31 December 2000 are as follows:-

HK\$'000	Audited					
	Financial year ended 31 December					
	1995	1996	1997	1998	1999	2000
Turnover	35,484	43,267	48,558	54,334	44,210	62,445
Profit before taxation	10,570	13,313	16,582	17,936	7,106	17,154
Profit after taxation	10,570	13,329	15,385	16,173	6,367	15,250

S\$'000	Financial year ended 31 December					
	1995	1996	1997	1998	1999	2000
Turnover	6,502	7,890	9,298	11,727	9,658	13,810
Profit before taxation	1,937	2,427	3,175	3,871	1,552	3,793
Profit after taxation	1,937	2,430	2,946	3,491	1,391	3,372

OUR CONTACT DETAILS

The contact details of our principal place of business are as follows:-

Address	:	909 Austin Tower, 22-26 Austin Avenue, Tsimshatsui, Kowloon, Hong Kong.
Tel	:	(852) 2366 9013
Fax	:	(852) 2367 9087
Website	:	www.colorland-animation.com*
e-mail	:	col@colorland.com.hk

* Information contained on our website does not constitute part of this Prospectus

THE INVITATION

Issue Size	:	20,000,000 New Shares. The New Shares will, upon issue and allotment, rank <i>pari passu</i> in all respects with the existing issued Shares.
Issue Price	:	S\$0.20 for each New Share.
Purpose of the Invitation	:	The Directors consider that the listing and quotation of the Shares on the SGX-ST will enhance our public image and enable us to tap the capital markets for the expansion of our business. In particular, the Invitation will facilitate the implementation of our strategy described under "Use of Proceeds" on page 35 of this Prospectus.
Listing Status	:	The Shares will be quoted on the Main Board of the SGX-ST, subject to admission of our Company to the Official List of the SGX-ST and permission for dealing in and quotation of the Shares being granted by the SGX-ST.



RISK FACTORS

We are exposed to a number of possible risks that may arise from economic, business, market and financial factors and developments and which may have an adverse impact on our future performance. Prospective investors should carefully consider and evaluate the following risk factors and all other information contained in this Prospectus before deciding to invest in our Shares. If any of the following risk factors and uncertainties develop into actual events, our business, results of operations and financial condition could be materially and adversely affected. In such cases, the trading price of our Shares could decline due to any of these risk factors and uncertainties, and you may lose all or part of your investment in our Shares.

RISKS SPECIFIC TO OUR GROUP

We depend on a limited number of customers for a significant portion of our revenue.

We currently derive and expect to continue to derive a significant portion of our revenue from our key customers. Customers accounting for five per cent. or more of our total turnover for FY 2000 are Animation Productions (28.3%), Burbank (10.4%), Tundra (18.2%), Yoram Gross (18.8%) and France Animation (21.8%).

Our contracts with our customers are project-based and new contracts will have to be negotiated. We cannot be certain that our major customers will continue to commission us to provide animation services. Further, if a major customer delays or cancels a project, we must ensure that alternative projects are available for our staff to work on. Otherwise, we would incur staff expenses in respect of staff who would not be working on any project. If any of our major customers reduces its need for our services, our financial condition and results of operations will be adversely affected. Page 67 of this Prospectus sets out in "Major Customers" the customers accounting for five per cent. or more of our total turnover for the past three financial years.

The value and returns on our long term investments are difficult to predict.

Some of our customers require us to invest an agreed amount out of our fees (between 15% to 80% of contract value) into projects for which we are commissioned to provide animation services. There is no certainty we will be able to recover all or part of our investment cost from our share of the future earnings from the distribution of the respective productions. Our gross investment range, direct and indirect, as at 31 December 2000 are as follows:-

HK\$ million	Number of Investments	
	Direct	Indirect
0-1.9	1	0
2.0-3.9	5	1
4.0-5.9	4	1
6.0 and above	0	0
Total	10	2

More information of our participation in the financing of animation production can be found on pages 39 to 41 of this Prospectus.

We currently amortise direct investments over a five year period starting from the distribution of such productions by our customers whereas indirect investments are amortised, using the straight line method, over the respective put option periods. While the income from direct investments are expected to be received over a period of more than 10 years, the Company has for reasons of conservatism and prudence, adopted a policy of amortising direct investments over a five year period. The carrying values of our investments are based on our management's estimation of the commercial values of such productions.

As at 31 December 2000, the net investments in such projects amounted to HK\$26.3 million, out of which HK\$11.4 million relates to investments in projects for which distribution has not yet commenced as of that date and hence no amortisation was made. The return from these investments remains uncertain until the distribution of these animation productions commences. Hence, there is no assurance that the carrying value reflects the return that we may receive on such investments. There is no assurance that we will not lose part if not all of our long-term investments arising from additional amortisation as adjustments to its fair carrying value. Any provision for the additional amortisation of our long-term investments would adversely affect our profits.

We draw your attention to our level of long term investments. Our net long term investments as a percentage of total assets for the past six financial years are as follows:–

HK\$'000	1995	1996	1997	1998	1999	2000
Long-term investments	6,547	8,743	11,817	12,642	19,699	26,299
As % of total assets	26%	28%	25%	38%	46%	44%

The loss of any of our key management will significantly affect our business.

Our success depends on the continued employment of our senior management team, which essentially comprises Mr Sek Siu Ming and his spouse Mdm Luo Hui Ling, who are the Chief Executive Officer and Chief Operating Officer of our Company respectively. To date, they have been responsible for a majority of our revenue through their management and experience. In the event that either Mr Sek or Mdm Luo were to leave our Company, they would be difficult to replace and our business would be adversely affected.

Mr Sek Siu Ming is insured for the sum HK\$20,000,000 in the event of either accidental death or permanent disablement with Colorland Hong Kong as the beneficiary. We intend to continue with Mr Sek's "key man" insurance policy which expires on 31 December 2001.

Save for Mr Sek Siu Ming, we have not taken out any other "key man" insurance policies for members of our key management.

We may be unable to attract or retain skilled employees.

We are reliant on the artistic capabilities of our skilled employees, such as our animation directors, animators and computer graphic artists. For instance, most of our animation directors have more than 15 years of experience in the animation industry. Please refer to page 79 of this Prospectus for the experience profile of our production staff.

As our animators are remunerated based on the amount of work completed, our ability to retain them is dependent on, *inter alia*, whether we have a constant stream of assignments for them.

In the event that we should fail to hire and retain such skilled employees, existing projects may not be delivered according to our customers' requirements or we may not have the available skilled employees to undertake new projects. As a result, our business, financial condition and results of operations would be adversely affected.

Our core business and track record have historically been in 2D animation and we may not be able to secure engagements in 3D animation.

We have only secured work from one major customer to produce a 3D feature length video and owing to capacity constraints, are currently unable to undertake work from other customers for 3D animation productions. Further, as our core business and track record have traditionally been in 2D animation productions, there is no assurance we will be able to secure sufficient contracts for 3D animation work. As at 31 December 2000, we have invested approximately HK\$6.6 million in the development of our 3D animation capabilities and intend to develop this as our core business. In the event that we fail to secure sufficient contracts for 3D animation work, our investment in 3D animation capabilities would have to be written off and accordingly, there will be an adverse effect on our financial condition and results of operations.



Returns from producing our own 3D animation projects may not be commensurate with our investment.

Over the next three years we intend to produce two 3D animation series and/or feature length video. Assuming that suitable business partners take up 50% of the equity stake in these two productions, our costs for these productions is estimated at HK\$25 million. We have set aside approximately the net proceeds of HK\$10.8 million from the issue of the New Shares to contribute towards such costs. Returns from these productions may not be commensurate with our investment. The returns from these productions would be dependent on, *inter alia*:–

- the ability to secure additional financing for the productions;
- the ability to find suitable business partners as co-producers. Should we fail to find suitable business partners, our productions will be delayed;
- the ability to complete the production within the required timeframe at a competitive cost. A delay in the delivery of projects according to specified timetable would have increased the cost of production;
- the ability to market and distribute our production either on our own or through foreign business partners. Though we currently do not have our own distribution network, we are considering whether to set up such a distribution network or enter into a partnership with established third party distributors;
- the level of acceptance by the audience of the production. A favourable response to our productions in one country may contribute to our marketing efforts in other countries;
- the exposure and popularity of the individual characters within the production which will determine our ability to license the use of such characters to other parties; and
- the ability to protect our intellectual property rights in relation to our production and our characters. We are subjected to the risk that pirated copies of animation productions may be reproduced and distributed.

Our shift to the production of our 3D animation projects may be viewed unfavourably by our customers who are producers of animation content.

Although our customers are predominantly 2D animation producers, there is no assurance that we will not be perceived as a competitor as we start to produce our own 3D animation projects. The perception by our customers that we are competing with them may cause a potential loss of business and would have an adverse effect on our financial condition and results of operations.

Delay or non-payment for services rendered may affect our financial position and operating results.

Although we minimise exposure by billing on a stage of completion basis, there is no guarantee that all payments will be made according to the contracts signed with our clients. Any delay in settlement of amounts invoiced may adversely affect our cashflow and profitability. Over the past six financial years, there were four years on which we had to make provisions for bad debts and two years where we wrote back provisions for bad debts. Our provision for bad debts in FY 1995, FY 1996, FY 1998 and FY 1999 were approximately HK\$8,000, HK\$925,000, HK\$240,000 and HK\$162,000 respectively. In FY 1995, the provision relates to a write off of an unreconciled variance in the current account of a related company. In FY 1996 and FY 1999, the receivables were in respect of three customers that were invoiced in FY 1994, FY 1995 and FY 1998. In FY 1998, the provision relates to investment income, which was subsequently written back in FY 1999. The write back of the provision for bad debts in FY 1997 of HK\$544,000 relates to a provision made in FY 1996.

Our failure to meet customer expectations or deliver satisfactory services could result in delay or loss of revenues, cost overruns and negative publicity.

Our engagements require us to meet quality assurance and production deadlines that are critical to our customers' businesses. Any defect or error or failure to meet customers' specifications or expectations could result in:-

- delayed or lost revenue;
- the requirement to provide additional services to a customer at no charge due to unsatisfactory work or an inability to meet clients' expectations and thus leading to cost overruns;
- negative publicity about us and our services, which could adversely affect our ability to attract or retain clients; and/or
- claims for substantial damages against us.

This risk increases as we work on more technologically complex projects which involve integration of traditional and computer-generated animation techniques.

Although we have not encountered any of the above situations, there can be no assurance that any of the above incidents will not occur in the future.

We may lose our competitiveness if we fail to control costs and productivity.

Pricing is an important consideration to our customers in their choice of animation studios. We have maintained low costs given (i) the location of our production studio in Shenzhen and its representative office in Shanghai and (ii) the use of computers as opposed to traditional methods. There is no assurance that the above mentioned measures we undertake to control our costs will continue to be successful, and in the event that they are not, there will be an adverse effect on our financial condition and results of operations. Please refer to pages 69 and 70 of this Prospectus on "Competitive Strengths".

We are exposed to competition from animation production studios in Asia.

There are other animation production studios in Asia providing similar animation services. Please refer to "Competition" on page 69 of this Prospectus for a list of some of the other animation studios in Asia.

In the event that our existing customers choose to award future contracts to our competitors, our financial performance may be adversely affected.

We are exposed to fluctuations in foreign currency exchange rates.

Our receivables are denominated in US\$, FrF, A\$ and EUR whereas our expenses which include mainly wages, overheads and operating expenses are denominated in HK\$ or RMB. A depreciation in US\$, FrF, A\$ or EUR vis-à-vis the HK\$ or RMB would have an unfavourable impact on our financial results. On the other hand, a depreciation in either the HK\$ or RMB vis-à-vis US\$, FrF, A\$ or EUR would generally have a favourable impact on our financial results.



We provide below a table of the HK\$/A\$ exchange rates over the past six financial years and four months ended 30 April 2001:-

	HK\$/A\$ Rate	
	High	Low
FY 1995	6.0055	5.4980
FY 1996	6.3329	5.6754
FY 1997	6.1852	5.0375
FY 1998	5.3057	4.3336
FY 1999	5.2143	4.7477
FY 2000	5.1922	3.9872
January 2001	4.4612	4.2370
February 2001	4.3207	4.0826
March 2001	4.1379	3.7893
April 2001	4.0282	3.7279

Source: www.oanda.com

Our financial statements are prepared in HK\$. Our non-HK\$ denominated assets will have to be translated into HK\$ based on the exchange rates prevailing on the balance sheet date. Consequently, such assets would be lower should there be any appreciation in the HK\$ and our results of operations would be adversely affected.

Please refer to “Foreign Exchange Exposure” on pages 36 and 37 of this Prospectus for more details on our foreign exchange gains and/or losses.

Political and economic considerations in PRC.

In the last two decades, PRC government has launched substantial economic reform measures in order to transform PRC economy into a more market-oriented economy.

To the extent that our animation production activities are carried out in PRC, we will have to operate within the framework of PRC legal system and be regulated thereby. PRC legal system is based on PRC Constitution and is made up of written laws, regulations, circulars, directives and other governmental orders such as, *inter alia*, the Company Law of PRC, Securities Law of PRC, Wholly Foreign Owned Enterprise Law of PRC and its implementing rules.

Considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, trade, securities and taxation relating to, *inter alia*, the protection of foreign investors. However, some of the laws and regulations and the interpretation, implementation and enforcement thereof may be subject to policy changes. Furthermore, precedents in respect of the interpretation, implementation and enforcement of PRC laws and regulations are limited.

Hence, our results and financial conditions could be adversely affected by changes in PRC’s political, economic and social conditions and by changes in the policies of PRC government or changes in laws and regulations or the interpretation or implementation thereof.

In the event of a take-over of the Company, the protection afforded under the Singapore Take-over Laws and Regulations is limited.

There are presently no requirements under any Bermuda law or regulation of general application requiring persons who acquire significant shareholdings in us to make take-over offers for our Company. As our Company is incorporated in Bermuda, the Singapore Take-over and Merger Laws and Regulations do not apply to take-over offers for our Company.

Although Bye-Law 168 of our Company's Bye-Laws will, due to its binding effect on our shareholders, require our shareholders who make take-over offers for our Company to comply with the Singapore Take-over and Merger Laws and Regulations, it is uncertain whether this can be enforced in respect of persons who are not our shareholders.

In the event that a person (not being one of our shareholders), whether alone or together with parties acting in concert with him, acquires or gains control of up to 25% or 25% or more of our Shares or, in the event that he already owns or controls 25% or more but less than 50% of our Shares, acquires an additional 3% of our Shares within any 12-month period or acquires or gains control of more Shares but resulting in a shareholding of less than 100% of our Shares, you may not be offered an opportunity to sell your Shares to such acquiror at the price he had paid for those Shares. Please see "Application of Singapore Take-Over Laws and Regulations" on page 13 of this Prospectus for more details.

We may not be able to enjoy continued availability of government tax incentives.

In relation to Colorland (Shenzhen), we made profits after taxation of HK\$7.6 million and HK\$15.7 million for FY 1999 and FY 2000 respectively. We enjoyed a zero tax rate up to FY 1996. From FY 1997 to FY 1999 we were subject to a preferential tax rate of 7.5% instead of the full 15% for foreign-owned companies. From FY 2000 onwards, although our gross tax rate is 15%, we are able to obtain a rebate of 5% applicable to export-oriented corporations. However, we cannot assure you that these incentives will continue to be available at the level indicated. Should this happen, our effective tax rate will increase from 10% to 15%, thus adversely affecting our profits after taxation.

Our computer equipment is subject to risk of system failure over which we have little or no control.

Our operations depend on the efficient and uninterrupted operation of our computer equipment to facilitate production, support project management, data warehousing, file transfers between our servers and customers. Substantially all of our computer network hardware is currently located at Shenzhen. These systems and operations are vulnerable to damage or interruption from factors beyond our control. We do not have a formal disaster recovery plan, other than routine back-up procedures. Any such interruption could result in the loss of animation data and work which would have to be redone. The subsequent delay in the delivery of animation productions would adversely impact on the state of our operating results.

Investors may not be able to enforce their civil liabilities against us or our directors, controlling persons and officers.

We are organised under the laws of Bermuda. A number of our directors named in this Prospectus are not residents of Singapore and all of our assets are located outside of Singapore. As a result, it may be difficult for Singapore holders of our voting shares to commence legal proceedings against our Company or our Directors within Singapore or to realise in Singapore upon judgments rendered against them.

RISKS RELATING TO AN INVESTMENT IN OUR SHARES

Our current shareholders hold a substantial number of our Shares, which they will be able to sell in the public market in the near future.

Our Shareholders and their respective shareholdings in our Company immediately before and after the Invitation are set out on pages 56 and 57 this Prospectus.

There will be 100,000,000 Shares immediately following the Invitation. Other than those under moratorium, Shares may be sold in the public market in Singapore. Please refer to page 59 of this Prospectus for details of our Shareholders under moratorium.

Sales of a substantial number of our Shares after the Invitation by any of our current shareholders could cause our Share price to fall. In addition, the sale of these Shares could impair our ability to raise capital through the issue of additional Shares.



Control by existing shareholders may limit your ability to influence the outcome of decisions requiring the approval of shareholders.

Upon completion of the Invitation, our Directors and holders of more than 5% in our equity and their associates will collectively own approximately 74.8% of our issued share capital. These shareholders, if acting together, would be able to significantly influence all matters requiring approval by our shareholders. This concentration of ownership could have the effect of delaying or preventing a change in control of our Company or otherwise discouraging a potential acquiror from attempting to obtain control of us.

New investors in the Invitation will incur immediate and substantial dilution.

The Issue Price of our Shares will be substantially higher than their book value per share of the existing Shares. As a result, if we were liquidated for book value immediately following the Invitation, each shareholder subscribing in the Invitation would receive less than the price they paid for their Shares. Please refer to “Dilution” on page 35 of this Prospectus for more details.

Our Share price may be volatile, which could result in substantial losses for investors purchasing shares in the Invitation.

Prior to the Invitation, you could not buy or sell our Shares publicly. An active public market for our Shares may not develop or be sustained following the Invitation. You may be unable to sell your Shares at or above the Issue Price. The market price of the Shares may fluctuate significantly and rapidly as a result of the factors which are beyond our control.

INVITATION STATISTICS¹

Issue Price for each New Share **S\$0.20**

NET TANGIBLE ASSETS

NTA per Share based on our Group's audited consolidated balance sheet as at 31 December 2000 adjusted for the issue of new shares to Mdm Luo Hui Ling as described on page 53 of this Prospectus, the Stock Split and Bonus Issue:-

- | | |
|--|------------|
| (a) before adjusting for the estimated net proceeds from the issue of the New Shares (based on the pre-Invitation share capital of 80,000,000 Shares) | 15.3 cents |
| (b) after adjusting for the estimated net proceeds from the issue of the New Shares (based on the post-Invitation share capital of 100,000,000 Shares) | 14.7 cents |

Premium of Issue Price per Share over our Group's consolidated NTA per Share as at 31 December 2000:-

- | | |
|--|-------|
| (a) before adjusting for the estimated net proceeds from the issue of the New Shares (based on the pre-Invitation share capital of 80,000,000 Shares) | 30.5% |
| (b) after adjusting for the estimated net proceeds from the issue of the New Shares (based on the post-Invitation share capital of 100,000,000 Shares) | 36.4% |

EARNINGS

Historical earnings per Share of our Group for the financial year ended 31 December 2000 based on the estimated consolidated profit and loss account for the year and the pre-Invitation share capital of 80,000,000 Shares 4.2 cents

PRICE EARNINGS RATIO

Historical price earnings ratio based on the net earnings per Share of our Group for the financial year ended 31 December 2000 4.7 times

NET OPERATING CASH FLOW²

Historical net operating cash flow per Share of our Group for the financial year ended 31 December 2000 based on the pre-Invitation share capital of 80,000,000 Shares 6.6 cents

Ratio of Issue Price to historical net operating cash flow per Share of our Group for the financial year ended 31 December 2000 3.0 times

Notes:-

- 1 NTA, EPS and Net Operating Cash Flow per Share figures based on relevant applicable HK\$/S\$ exchange rates as shown under "Exchange Rates" on page 34 of this Prospectus.
- 2 Net operating cash flow is defined as net profit attributable to shareholders of the Company with depreciation and amortisation charges added back.



SUMMARY OF PROFORMA GROUP FINANCIAL INFORMATION

The financial information of the Group for the period under review has been prepared on the basis that the Group has been in existence throughout the period under review. Financial information of our Group for FY 1995 to FY 2000 set out below has been derived from the audited financial statements, and should be read in conjunction with the Accountants' Report and the full text of this Prospectus.

RESULTS OF OPERATIONS OF OUR GROUP

HK\$'000	Audited					
	Financial year ended 31 December					
	1995	1996	1997	1998	1999	2000
Turnover	35,484	43,267	48,558	54,334	44,210	62,445
Direct labour and material costs	(19,314)	(20,285)	(20,955)	(20,833)	(21,773)	(25,448)
	16,170	22,982	27,603	33,501	22,437	36,997
Bank interest income	23	241	336	195	70	228
Investment income ¹	920	1,132	1,666	643	498	394
Other income ²	73	61	567	57	17	199
EBITDA ³	11,353	14,699	19,810	23,440	13,725	25,515
Depreciation	(431)	(1,063)	(1,937)	(3,012)	(3,178)	(3,774)
Amortisation of long term investments ¹	(81)	(487)	(1,627)	(2,687)	(3,511)	(4,815)
Net interest income/(expense)	(271)	164	336	195	70	228
Profit before tax	10,570	13,313	16,582	17,936	7,106	17,154
Taxation	—	16	(1,197)	(1,763)	(739)	(1,904)
Profit after taxation	10,570	13,329	15,385	16,173	6,367	15,250
Dividends ⁴	—	3,000	11,000	16,000	2,000	15,000
Earnings per Share ⁵ (HK cents)	13.2	16.7	19.2	20.2	8.0	19.1

Notes:-

- 1 Investment income and amortisation relate to long term investments in animation projects. A detailed discussion of the Group's long term investments is provided on pages 39 to 41 of this Prospectus.
- 2 Other income relates to sundry income, bad debts recovered and rental income.
- 3 EBITDA refers to earnings before interest, tax, depreciation and amortisation.
- 4 An interim dividend of HK\$15,000,000 was declared on 26 June 2000 and was paid on 6 November 2000.
- 5 For illustrative purposes, the earnings per Share for the financial year under review has been computed based on the profit after taxation and the pre-Invitation issued share capital of 80,000,000 Shares.

FINANCIAL POSITION OF OUR GROUP

HK\$'000	Audited					
	As at 31 December					
	1995	1996	1997	1998	1999	2000
Fixed assets	3,633	6,843	10,888	10,904	8,316	9,990
Long-term investments	6,547	8,743	11,817	12,642	19,699	26,299
Current assets						
Inventories	2,491	1,854	1,531	1,074	596	615
Debtors, deposits, prepayments and other receivables	10,272	8,975	11,194	6,124	8,678	11,081
Due from a director	94	108	—	—	—	—
Cash and bank balances	2,319	4,496	11,171	2,456	5,123	12,146
	15,176	15,433	23,896	9,654	14,397	23,842
Current liabilities						
Creditors and accrued charges	7,198	6,793	19,390	5,663	9,107	7,321
Due to ultimate holding company	1,500	—	—	—	—	—
Due to related company	4,436	1,935	—	—	—	—
Dividend payable	—	—	—	—	2,000	—
Taxation	260	—	535	688	89	1,210
	(13,394)	(8,728)	(19,925)	(6,351)	(11,196)	(8,531)
Net current assets	1,782	6,705	3,971	3,303	3,201	15,311
Net assets	11,962	22,291	26,676	26,849	31,216	51,600
Proforma shareholders' equity	11,962	22,291	26,676	26,849	31,216	51,600
NTA per Share ¹ (HK cents)	15.0	27.9	33.3	33.6	39.0	64.5

Note:-

1 For illustrative purposes, the NTA per Share is calculated based on the pre-Invitation issued share capital of 80,000,000 Shares.

The following financial information is translated for the sole purpose of investor convenience and has not been audited. These translations are made with reference to exchange rates as quoted by OANDA Corporation (which provides web-based currency conversion services at www.oanda.com) and should not be construed as representations that the Hong Kong dollar amounts actually represent such Singapore dollar amounts or could be converted into Singapore dollars at the rate indicated or at any other rate.

Results of Operations of our Group

S\$'000	Financial year ended 31 December					
	1995	1996	1997	1998	1999	2000
Turnover	6,502	7,890	9,298	11,727	9,658	13,810
Direct labour and material costs	(3,539)	(3,699)	(4,012)	(4,496)	(4,757)	(5,628)
	2,963	4,191	5,286	7,231	4,901	8,182
Bank interest income	4	44	64	42	15	50
Investment income	169	206	319	139	109	87
Other income	13	11	109	12	4	44
EBITDA	2,080	2,680	3,793	5,059	2,998	5,643
Depreciation	(79)	(194)	(371)	(650)	(694)	(835)
Amortisation of long term investments	(15)	(89)	(311)	(580)	(767)	(1,065)
Net interest income/(expense)	(49)	30	64	42	15	50
Profit before tax	1,937	2,427	3,175	3,871	1,552	3,793
Taxation	—	3	(229)	(380)	(161)	(421)
Profit after taxation	1,937	2,430	2,946	3,491	1,391	3,372
Dividends	—	547	2,106	3,453	437	3,317
Earnings per Share (cents)	2.4	3.0	3.7	4.4	1.7	4.2
Hong Kong dollar equivalent of S\$1	5.4574	5.4841	5.2226	4.6333	4.5774	4.5218

Financial Position of our Group

S\$'000	As at 31 December					
	1995	1996	1997	1998	1999	2000
Fixed assets	664	1,238	2,362	2,330	1,785	2,220
Long-term investments	1,198	1,583	2,563	2,702	4,228	5,843
Current assets						
Inventories	456	335	332	229	128	137
Debtors, deposits, prepayments and other receivables	1,879	1,625	2,428	1,309	1,862	2,462
Due from a director	17	20	—	—	—	—
Cash and bank balances	424	814	2,423	525	1,100	2,699
	2,776	2,794	5,183	2,063	3,090	5,298
Current liabilities						
Creditors and accrued charges	1,317	1,230	4,206	1,210	1,955	1,627
Due to ultimate holding company	274	—	—	—	—	—
Due to related company	812	350	—	—	—	—
Dividend payable	—	—	—	—	429	—
Taxation	47	—	116	147	19	269
	(2,450)	(1,580)	(4,322)	(1,357)	(2,403)	(1,896)
Net current assets	326	1,214	861	706	687	3,402
Net assets	2,188	4,035	5,786	5,738	6,700	11,465
Proforma shareholders' equity	2,188	4,035	5,786	5,738	6,700	11,465
NTA per Share (cents)	2.7	5.0	7.2	7.2	8.4	14.3
Hong Kong dollar equivalent of S\$1	5.4662	5.5246	4.6102	4.6792	4.6589	4.501

EXCHANGE RATES

The table below sets forth the high and low exchange rates for HK\$/S\$ for each month for the past six months. The table indicates how many HK\$ would take to buy one S\$.

	HK\$/S\$ Rate	
	High	Low
November 2000	4.5036	4.4362
December 2000	4.5215	4.4512
January 2001	4.5168	4.4595
February 2001	4.4915	4.4612
March 2001	4.4723	4.3215
April 2001	4.3339	4.2889



The following table sets forth, for financial periods indicated, how many HK\$ it would take to buy one S\$, based on the average exchange rates over the financial period ("Average") and closing exchange rates as at the last day of each financial period ("Closing"). Unless otherwise noted, the exchange rates in this table are used for our Company's financial accounts disclosed elsewhere in this Prospectus.

	HK\$/S\$ Rate	
	Average	Closing
FY 1995	5.4574	5.4662
FY 1996	5.4841	5.5246
FY 1997	5.2226	4.6102
FY 1998	4.6333	4.6792
FY 1999	4.5774	4.6589
FY 2000	4.5218	4.5010

Source: www.oanda.com

As at 23 May 2001, the exchange rate for HK\$/S\$ is HK\$4.3105 : S\$1.

CAPITALISATION AND INDEBTEDNESS

The following table shows our cash and cash equivalents and capitalisation as at 31 December 2000:–

- (i) on an actual basis; and
- (ii) as adjusted to give effect to the issue of new shares to Mdm Luo Hui Ling as described on page 53 of this Prospectus, Stock Split, Bonus Issue, the issue of 20,000,000 ordinary shares pursuant to the Invitation and application of the net proceeds, at an issue price of S\$0.20 per Share, after deducting underwriting commissions and estimated expenses related to the Invitation as found on page 108 of this Prospectus.

You should read this table in conjunction with our financial statements and the related notes included in this Prospectus.

HK\$'000	As at 31 December 2000	
	Audited	As adjusted
Cash and cash equivalents	12,146	26,461
Indebtedness		
Short term debt and current instalments of long-term debt (secured)	—	—
Long term debt (secured)	—	—
Total shareholders' equity	51,600	65,915
Total capitalisation	51,600	65,915

As at the date of this Prospectus, the Group does not have any significant contingent liabilities.

Subsequent to 31 December 2000, the Company issued new shares to Mdm Luo Hui Ling which raised a gross amount of HK\$3.6 million in cash. Save as disclosed, there were no significant changes to the Group's capitalisation and indebtedness since 31 December 2000.

DILUTION

Dilution is the amount by which the price paid by the purchasers of our Shares in the Invitation exceeds the NTA per Share after the Invitation. NTA per Share is determined by subtracting our total liabilities from the total book value of our tangible assets and dividing the difference by the number of Shares deemed to be outstanding on the date as of which the book value is determined. Our NTA as at 31 December 2000 was approximately S\$11.5 million.

Our NTA as at 31 December 2000, adjusted for the issue of new shares to Mdm Luo Hui Ling as described on page 53 of the Prospectus and the 20,000,000 New Shares at the Issue Price of 20.0 cents per Share, after deducting underwriting commissions and estimated expenses paid by us in relation to the Invitation, would be 14.7 cents per Share. This represents a decrease in NTA of 0.7 cents per Share to our existing shareholders and an immediate dilution in NTA of 5.3 cents per Share to new public investors.

The following table illustrates the dilution per Share:-

As at 31 December 2000	cents
Issue Price	20.0
NTA per Share as at 31 December 2000 adjusted for the issue of new shares to Mdm Luo Hui Ling as described on page 53, and the Stock Split and Bonus Issue, based on the pre-Invitation issued share capital of 80,000,000 Shares	15.3
Decrease in NTA per Share attributable to new public investors	(0.7)
NTA per Share after the Invitation	14.7
Dilution in NTA per Share to new public investors	5.3

The following table summarises as of 31 December 2000, the total number of Shares issued by us, the total consideration paid to us and the average price paid per Share by our existing shareholders and by our new public investors in the Invitation.

	No. of Shares	%	Consideration (S\$ million)	%	Average price per Share (cents)
Existing shareholders ¹	80,000,000	80.0	11.4	74.0	14.2
New public investors	20,000,000	20.0	4.0	26.0	20.0
Total	100,000,000	100.0	15.4	100.0	

Note:-

1 Please refer to page 56 of this Prospectus for a list of our existing shareholders and their respective shareholdings.

USE OF PROCEEDS

We estimate that our net proceeds from the Invitation of Shares (after deduction of underwriting commissions and estimated transaction expenses) will be approximately HK\$10.8 million (S\$2.4 million).

We propose to use the net proceeds for the development of our 3D television series and/or feature length video.

Please refer to page 52 of this Prospectus on the use of the Invitation proceeds to develop our own 3D television series and related products and/or feature length video.

Pending the specific deployment of funds, the proceeds may be placed as deposits with banks or financial institutions or added to our working capital or used for investment in short term money market instruments as may be determined by the Directors in their absolute discretion.



DIVIDENDS

Our Company has not paid any dividends since its incorporation on 10 August 2000.

The following table sets out the net dividends paid by the Group to its then existing shareholders over the past three financial years:-

HK\$	1998	1999	2000
Colorland Hong Kong	16,000,000	2,000,000	15,000,000

Past dividends declared should not be taken as an indication of the dividends payable in the future.

We currently do not have a formal dividend policy. We currently intend to use retained future earnings to finance our business expansion. In the event that we do decide to pay dividends, our Board of Directors will consider, among other things, our expected future earnings, operations, capital requirements and general financial condition, as well as general business conditions and other factors which our Board of Directors may determine as appropriate.

FOREIGN EXCHANGE EXPOSURE

Our revenues are mainly denominated in foreign currency such as A\$ and US\$, FrF and EUR. The other currencies, C\$, HK\$ and RMB, have not exceeded 0.4% in each of the three years from FY 1998 to FY 2000. The percentages of our turnover denominated in these currencies for the past three financial years are as follows:-

Currency/%	FY 1998	FY 1999	FY 2000
A\$	24.4	26.1	18.8
US\$	75.2	73.9	53.7
FrF	—	—	21.8
EUR	—	—	5.7

On the other hand, our wages, overheads and operating expenses are denominated in either HK\$ or RMB. Timing differences in the payment of costs and revenue receipts may result in foreign exchange transaction losses.

Our foreign exchange losses over the past three years from FY1998 to 2000 are set out below:-

HK\$'000	FY 1998	FY 1999	FY 2000
Foreign exchange losses	473	289	1,696

The foreign exchange losses recorded by us arose mainly from the difference between the foreign exchange rates in respect of its A\$-denominated transactions on the date of the transaction and the exchange rate at the date of settlement. A depreciation in the A\$ from the date of recognition or billing to the date of settlement will result in a foreign exchange loss. There are no foreign exchange losses from our Group's exposure to the US\$ as the HK\$ is pegged to the US\$.

In FY 2000, the foreign exchange losses increased significantly due to depreciation of A\$ and FrF against the HK\$.

The following table sets out the HK\$/A\$ and HK\$/FrF exchange rates for FY 2000:-

	HK\$/A\$	HK\$/FrF
1 January 2000	5.1075	1.1896
31 December 2000	4.3673	1.1147
Average	4.5412	1.0977

In the past, we did not hedge our foreign exchange exposure as we lacked the expertise in the use of such financial instruments. However, we will continue to closely monitor our foreign exchange risk and may employ hedging instruments to manage our foreign exchange risk in future.



REVIEW OF FINANCIAL PERFORMANCE AND FINANCIAL POSITION

This discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes, which are included elsewhere in this Prospectus.

OVERVIEW

The only source of operating revenue comes from the provision of animation services to our customers who will then perform post production work such as editing before distributing the animation productions. Our contracts are on a fixed price basis with specified delivery dates. Our contracts are typically delivered over 12 to 18 months. If the production is a series and its episodes are delivered in stages, then the production revenues are apportioned and recognised as deliveries of episodes are made. Depending on delivery dates, production revenues for a program may be recognised over more than one financial year. As not all programs are produced and delivered on a regular schedule, there may be material fluctuations in revenues between financial years due to the timing of production delivery. We recognise revenue from our feature length (movie length of around 70 to 90 minutes) animation productions on a stage of completion basis. The specific stages are agreed with customers prior to the signing of the contracts. This means that revenues are likely to be recognised over more than one fiscal year, and as a result, there may be material fluctuations in revenues between years. For instance, the Group recognised HK\$1.9 million and HK\$14.3 million in respect of animation work for Animation Productions' *Yolanda* in FY 1998 and FY 1999 respectively. Revenue for five financial years ended 31 December 1999 is derived entirely from 2D animation production services. From January 2000 onwards, we started animation work on a 3D animation feature length video, *Rudolph 3D*.

Certain customers may make payments in advance to us prior to the commencement or delivery of animation work. These receipts in advance will be classified under current liabilities and only recognised as revenue when deliveries of episodes have been made to the customers.

Other sources of income include bank interest income. This is recognised on a time proportion basis taking into account the outstanding principal and the effective interest rate applicable.

Factors affecting revenue

Factors affecting our revenue in any financial year include:-

- (a) the number of projects we undertake which is dependent on, *inter alia*, the number of available animation contracts, our available capacity and our ability to secure such contracts;
- (b) the complexity of the animation work required. For instance, 3D animation generally yields higher margin as compared to 2D animation work; and
- (c) the schedule on which pre-production and production work is delivered. A delay in the delivery schedule will affect the recognition of our revenue.

Although our animation operations are based in PRC, our customers are primarily based in Europe, Australia and USA. The contribution to the Proforma Group's turnover by geographical region is provided below. As the Group does not track costs on a project basis, there is no meaningful basis for the allocation of costs to various geographical markets and as such a discussion of profitability by geographical markets would not be meaningful.

Turnover (HK\$ million)	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Europe (France, UK)	21.3	16.9	15.0	8.6	31.1	31.3
Australia	13.6	22.9	19.5	16.9	12.3	18.3
USA	0.4	3.2	6.9	27.2	0.8	12.8
Asia (Singapore, Philippines, Hong Kong)	0.2	0.3	7.2	1.6	0	0
	35.5	43.3	48.6	54.3	44.2	62.4

% of Turnover	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Europe (France, UK)	60.0	39.0	30.9	15.8	70.4	50.2
Australia	38.3	52.9	40.1	31.1	27.8	29.3
USA	1.1	7.4	14.2	50.1	1.8	20.5
Asia (Singapore, Phillipines, Hong Kong)	0.6	0.7	14.8	3.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0	100.0

Long term investments, investment income, amortisation and write-off

For some animation projects, we invest a certain agreed sum into the animation series or films (collectively, the “Films”) upon the request of the customer or producer. This would help reduce our customer’s cost of production and subsequently also align our interests in the production with that of the customers.

Such investments are categorised under “Long Term Investments” in the balance sheet. Our percentage equity in the Films typically range from 6% to 18% and correspondingly, our returns are based on our share of the receipts of the Films. Our returns are booked as “Investment Income” in the profit and loss statement. Our investment income continues for the entire period for which the Film generates revenue.

The receipts of the Films represent all monies received by the producer from all sources net of music publishing royalties, accounting and audit fees, collection and transmission fees, taxes (including foreign withholding taxes) and residuals. The producer would keep complete records and pay us our share of the receipts in intervals as set out in the production agreements.

In the past, our participation in the financing of the costs of the production has ranged from approximately 15% to 40% and averaged 26% of the contract value, except for approximately 80% in one feature length animation project. This particular investment was a marketing decision aimed at promoting our animation services in the US.

In general, our participation is in the form of a direct investment of an agreed amount with the Producer. Upon receiving the receipts from the distributions, the Producer will make distribution of the receipts of the Film.

We had in the past also invested in Films at an agreed amount by way of a loan to a third party investor (“Investor”) together with investments from both the Producer and Investor. However, this was only done in respect of two productions for Australian producers. As at 31 December 2000, the cost of our total indirect investments amounted to approximately HK\$6.8 million. Through such arrangements in Australia, withholding tax payable on our returns is 20 percentage points lower than if we invest in such films directly. Apart from indirect investments via loans in Australia, our participation in the production of Films in other countries is done through direct investments.

We do not intend to enter such indirect investments in future as our Directors are of the view that the benefits of lower withholding tax do not justify the work in ensuring that the complicated contracts are properly structured. The loans were secured by mortgages in favour of us in respect of a portion of the Investor’s interests in the Films. The interest payable for the loan extended by us is equivalent to our share of receipts from distribution as if we had invested directly in the Films. The Investor does not have an obligation to pay interest on the loans to us until the Investor has received his share of receipts from the Film pursuant to the Investment Agreement.

We would usually also grant the Investor a put option whereby we are obliged to purchase the Investor’s interest in the film. The option period ranged up to 18 years. The use of put options allows the investor to transfer the share of project back to the Group at the residual value after the bulk of the revenues has been recognised.



The exercise price would be the lesser of (a) the outstanding principal amount of loan by us to the Investor (“Outstanding Principal”) together with interest, costs and charges thereon; and (b) the fair market price of the Investor’s interest (either agreed between the parties or failing which, be determined by a pre-appointed valuer based on discounted cash flows). The price payable to the Investor will be set-off against the Outstanding Principal payable by the Investor and the Investor will be discharged from any obligation to repay the Outstanding Principal to us⁽¹⁾. As of the date of this Prospectus, none of the Investors has exercised any of the options.

Our investments in animation productions for the past six financial years ended 31 December 2000 are as follows:–

HK\$ million	Direct	Indirect (via loans)
1995	1.8	—
1996	2.7	—
1997	2.6	2.1
1998	3.0	0.5
1999	10.6	—
2000	11.4	—

There is a time lag between our completion of the animation work and our collection of any investment income due to (i) post-production work such as editing and mixing, (ii) marketing and (iii) distribution. This time lag ranges from four months to 28 months.

Our investment income for the past six financial years ended 31 December 2000 are as follows:–

HK\$ million	Direct	Indirect (via loans)
1995	—	0.9
1996	0.3	0.8
1997	1.5	0.2
1998	0.1	0.5
1999	0.3	0.2
2000	0.3	0.1

Amortisation of long term direct investments is on a straight line basis over a five year period. We currently have two investments of HK\$6.8 million (before amortisation) via loans to third party investors with put options granted to such investors that expire in FY 2012 and FY 2016 respectively. Amortisation of long term investments via loan is on a straight line basis over the put option period.

The carrying value of the long term investment is reviewed annually by the Directors to ensure that it is not in excess of the recoverable amount. Upon listing of the Company, the reviews will be conducted twice a year.

Note:–

1 For illustrative purposes, assuming that the outstanding principal loan amount and the fair market value of the Investor’s interest are HK\$50,000 and HK\$30,000 respectively, the lower amount of HK\$30,000 will be deemed as the exercise price. The difference of HK\$20,000 will be written off and the Investor will be discharged from any future obligation. The net effect is that the rights to the receipts of such productions will be legally passed from the Investor to the Group without any exchange of cash between the Investor and the Group. It should be noted that the Group is already receiving its share of receipts from distribution (in the form of interest payments) prior to the exercise of the option.

The cumulative amortisations for both long term direct and indirect investments as at 31 December 2000 are as follows:–

HK\$ million	Direct	Indirect (via loans)
Blinky Bill I	—	2.6
Blinky Bill II	2.2	—
Fantaghiro	0.4	—
Flipper	0.7	—
Sam	1.5	—
Skippy	—	1.2
Tabaluga	1.8	—
Tom Sawyer	2.1	—
Yolanda	0.4	—

The carrying values of the investments are reviewed in order to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount based on the discretion of our Directors. The fair value of investments are dependent on, *inter alia*, the popularity of animation characters, sales orders on-hand for the production, investment income received and discount rates used. The auditors will assess if the calculations of the carrying values are reasonable and if necessary, will require additional information from the management to assess the fairness of the carrying values or propose adjustments to the carrying values of the long term investments.

In order to have a better understanding of our involvement in long term investments, please read the above together with the details set out on pages 61 and 62 of this Prospectus.

Factors affecting direct labour and material cost

Direct labour and material costs refers to (i) salary-related costs in respect of animation directors, animation artists and where required, freelance artists and (ii) material costs such as video tapes, paper, freight and transportation costs related to production (including the delivery of tapes to customers).

Salary-related cost accounted for approximately 93.8% of total direct costs in FY 2000.

Factors affecting our salary-related costs and hence our margins include:–

- (a) the complexity of the animation work done. The greater the complexity, the greater the effort and time required to produce the work. Hence salary costs increase with complexity;
- (b) implementation of new software. Higher costs will be incurred as a result of additional training and material charges;
- (c) the number of projects we undertake. The greater the number of animation projects, the higher the remuneration paid;
- (d) the schedule of our projects. For instance, if there are concurrent productions to be delivered, we may need to hire additional freelance artists to complete the animation production. We may be required to pay more in order to engage their services;
- (e) unexpected difficulties in the animation process, which require additional artistic staff; and
- (f) additional work needed to re-do certain scenes.



Factors affecting operating expenses

Operating expenses relate mainly to delivery costs which consist of non-production related freight and transportation expenses such as paint/ink delivery charges, and general and administration expenses such as general management salaries, travel and entertainment, audit and accounting fees, facilities management expenses and depreciation.

In FY 2000, salary-related costs of personnel in our management, finance and administration and human resources departments comprised 24.2% of our general and administrative expenses. Depreciation of animation hardware, computer equipment and other fixed assets represented 26.9% of general and administrative expenses. Rental, maintenance and utilities expenses accounted for 17.4% of general and administrative expenses. The other expense items are mainly travelling and entertainment, which accounted for 9.0% of general and administrative expenses in FY 2000.

REVIEW OF FINANCIAL PERFORMANCE

FY 1995

We recorded a turnover of HK\$35.5 million in FY 1995. Major projects completed during the year included 26 episodes of Yoram Gross' *Blinky Bill II*, 52 episodes of Animation Productions' *Canary Islands* and 26 episodes of Animation Productions' *The Mozart Band*. The average revenue for each of the above three major projects was approximately HK\$9.7 million.

The Group enjoyed tax holiday of zero tax rate from FY 1995 to FY 1996 for its operations in PRC and registered profits before tax of HK\$10.6 million in FY 1995. For more details on the tax treatment in PRC, please refer to pages 27 and 50 of this Prospectus.

FY 1995 to FY 1996

Turnover increased by approximately HK\$7.8 million or 21.9% from HK\$35.5 million in FY 1995 to HK\$ 43.3 million in FY 1996 mainly due to an increase in number of projects from 11 in FY 1995 to 14 in FY 1996. The average revenue for each of the projects in FY 1995 and FY 1996 were HK\$3.2 million and HK\$3.1 million respectively.

Major projects undertaken during the year included Yoram Gross' *Tabaluga 1*, Procidis' *The Explorer*, Animation Productions' *Elliot Mouse* and Tundra's Productions' *Tom Sawyer*. Apart from *Tom Sawyer* which was an 80-minute feature length video, *The Explorer* and two other major projects were for 13 and 26 episodes respectively. The average revenue for each of the above four major projects was approximately HK\$8.2 million.

Although turnover increased by 21.9%, direct labour and material costs increased by only 5.0% from HK\$19.3 million in FY 1995 to HK\$20.3 million in FY 1996 with the implementation of Cambridge Animation Systems' Animo software during the year. Direct labour and material costs in FY 1996 represented approximately 46.9% of turnover as compared to 54.4% in FY 1995. The Animo software generally increased efficiency by replacing manual painting and camerawork which were more time consuming. As the manual processes were more time consuming, tedious and required greater amount of effort and use of materials, the adoption of the Animo software has led to a general reduction in labour cost and materials.

Profit before taxation ("PBT") increased by approximately HK\$2.7 million or 26.0% from HK\$10.6 million in FY 1995 to HK\$13.3 million in FY 1996 with PBT margin improving from 29.8% in FY 1995 to 30.8% in FY 1996 due mainly to the implementation of the Animo software as described above. The Group continued to enjoy tax holiday for its PRC operations.

Profit after taxation ("PAT") increased by approximately 26.1%, from HK\$10.6 million in FY 1995 to HK\$13.3 million in FY 1996. The effective tax rate was near nil.

FY 1996 to FY 1997

Turnover increased by approximately HK\$5.3 million or 12.2% from HK\$43.3 million in FY 1996 to HK\$48.6 million in FY 1997 primarily due to an increase in projects undertaken from 14 in FY 1996 to 17 in FY1997 with an average value of HK\$2.9 million.

Major projects undertaken during the year include Yoram Gross' *Skippy*, Animation Productions' *Football Story* and *Elliot Mouse* and Tundra Productions' *Bible Video Series*. All the major projects mentioned were for 26 episodes each except for *Bible Video Series* which had 13 episodes of 45 minutes each. The average revenue for each of the above four major projects was approximately HK\$8.6 million.

Compared to the increase in turnover, direct labour and material costs increased at a lower rate of 3.3% from HK\$20.3 million in FY 1996 to HK\$21.0 million in FY 1997. Direct labour and material costs in FY 1997 represented approximately 43.2% of turnover as compared to 46.9% in FY 1996. This was due mainly to the continued implementation of the Animo software as we purchased more user licenses and more staff were trained to use the Animo software.

PBT increased by approximately HK\$3.3 million or 24.6% from HK\$13.3 million in FY 1996 to HK\$16.6 million in FY 1997. PBT margin improved from 30.8% in FY 1996 to 34.1% in FY 1997 due mainly to increased implementation of Animo software as described above.

PAT increased by approximately 15.4%, from HK\$13.3 million in FY 1996 to HK\$15.4 million in FY 1997. The effective tax rate was approximately 7.2% as the Group ceased to enjoy tax holiday for its operations in PRC.

FY 1997 to FY 1998

Turnover increased by approximately HK\$5.7 million or 11.9% from HK\$48.6 million in FY 1997 to HK\$ 54.3 million in FY 1998 primarily due to the undertaking of higher value contracts. Although the number of projects undertaken has decreased from 17 in FY 1997 to 14 in FY 1998, the average revenue per project was approximately HK\$3.9 million as compared to HK\$2.9 million in FY 1998.

Major projects undertaken during the year included Tundra Productions' *Bible Video Series*, a 13-episode series, and *Rudolph 2D*, a full-length feature film targeted at the movie audience. We also completed work on Southern Star's *Sam* and Animation Productions' *Football Story*. Both these productions were for series of 13 and 26 episodes respectively. The average revenue recognised in FY 1998 for each of the above four major projects was approximately HK\$9.6 million.

Our use of the Animo software allowed us to secure more technically demanding and consequently higher margin production contracts from our existing customers. Such contracts were generally of higher value. *Rudolph 2D* contributed a higher profit margin as it was a feature length film. A full feature length film has fewer drawings as compared to a 26-episode production even though contract values of these productions are similar. A typical 26-episode production will have approximately 468,000 drawings as compared to 100,000 drawings for a full length film. As a result, direct labour and material costs did not increase despite the increase in turnover. Direct labour and material costs in FY 1998 represented approximately 38.3% of turnover as compared to 43.2% in FY 1997.

PBT increased by approximately HK\$1.4 million or 8.2% from HK\$16.6 million in FY 1997 to HK\$17.9 million in FY 1998. PBT margin declined from 34.1% in FY 1997 to 33.0% in FY 1998 due mainly to (i) depreciation which increased by 55.5% from HK\$1.9 million in FY 1997 to HK\$3.0 million in FY 1998 as we installed new computer workstation and 35mm film recorder and (ii) amortisation which increased by 65.2% from HK\$1.6 million in FY 1997 to HK\$2.7 million in FY 1998 due to a write-off of long term investments relating to two productions as the Directors made adjustments to the carrying value of such long term investments which totalled HK\$1.6 million.

PAT increased by approximately 5.1%, from HK\$15.4 million in FY 1997 to HK\$16.2 million in FY 1998. The effective tax rate was approximately 9.8%.



FY 1998 to FY 1999

Turnover decreased by approximately HK\$10.1 million or 18.6% from HK\$54.3 million in FY 1998 to HK\$ 44.2 million in FY 1999 mainly due to a reduction in the number of projects undertaken from 14 in FY 1998 to 9 in FY 1999. However, the average revenue per project increased from HK\$3.9 million in FY 1998 to HK\$4.9 million in FY 1999.

Major projects undertaken during the year include Animation Productions' *Fantaghiro* and *Yolanda*, Yoram Gross' *Flipper*. All these projects were television series of 26 episodes each. The average revenue for each of the above three major projects was approximately HK\$14.0 million. As a result of postponement of the production of two series by customers, the bulk of the revenue for these two projects was only recognised after FY 1999.

PBT decreased by approximately HK\$10.8 million or 60.4% from HK\$17.9 million in FY 1998 to HK\$7.1 million in FY 1999 with PBT margin declining from 33.0% in FY 1998 to 16.1% in FY 1999. The decline in PBT margin was mainly due to:-

- (i) secondment of animators for setting up of our 3D animation section in spite of no animation projects on hand at that time. Additional training and material costs were incurred in setting up the department;
- (ii) late delivery of pre-production materials by two customers. This incurred costs as we still had to pay our staff a basic fixed salary even no work was performed. In view of (i) and (ii), direct labour and material costs increased from 38.3% to 49.2% of turnover;
- (iii) amortisation which increased by 30.7% from HK\$2.7 million in FY 1998 to HK\$3.5 million in FY 1999 due to an additional HK\$1.0 million write-off as an adjustment to the carrying value of a long term investment relating to our investment in a production; and
- (iv) depreciation which remained relatively stable at HK\$3.2 million despite the decline in turnover.

PAT decreased by approximately 60.6%, from HK\$16.2 million in FY 1998 to HK\$6.4 million in FY 1999. The effective tax rate was approximately 10.4%.

FY 1999 to FY 2000

Turnover increased by approximately HK\$18.2 million or 41.2% from HK\$44.2 million in FY 1999 to HK\$ 62.4 million in FY 2000 primarily due to the undertaking of more contracts. The number of projects undertaken has increased from 9 in FY 1999 to 14 in FY 2000 while the average revenue per project decreased from approximately HK\$4.9 million in FY 1999 to HK\$4.5 million in FY 2000.

Major projects undertaken during FY 2000 included Tundra Productions' *Rudolph 3D*, Animation Productions' *Toonimals* and *Nicholas*, Yoram Gross' *Tabaluga 2* and *Flipper and Lopaka 2* and France Animation's *Wheel Squad*. Apart from *Nicholas* and *Rudolph 3D* which were television series of 13 episodes and a feature length video respectively, the rest were television series of 26 episodes each. The average revenue for each of the above six major projects was approximately HK\$8.8 million.

Direct labour and material costs increased by approximately 16.9% from HK\$21.8 million in FY 1999 to HK\$25.4 million in FY 2000. As discussed above, the higher margin *Rudolph 3D* contributed partly to a higher percentage increase in turnover as compared to increases in direct labour and material costs. Direct labour and materials as a percentage of turnover declined from 49.2% in FY 1999 to 40.8% in FY 2000.

PBT increased by approximately HK\$10.0 million or 141.4% from HK\$7.1 million in FY 1999 to HK\$17.2 million for FY 2000 primarily due to the increase in turnover. PBT margin increased from 16.1% to 27.5% due to increased turnover resulting from an increase in the number of projects undertaken with a less than proportionate increase in costs despite an increase in amortisation of long term investments from HK\$3.5 million in FY 1999 to HK\$4.8 million in FY 2000. Depreciation increased by at a lesser rate of approximately 18.8% from HK\$3.2 million to HK\$3.8 million.

PAT increased by approximately 139.5%, from HK\$6.4 million in FY 1999 to HK\$15.3 million in FY 2000. The effective tax rate was approximately 11.1%.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets out the summary consolidated cashflows for the past three financial years ended 31 December 2000. Only major items are highlighted and figures may not add up due to rounding differences.

HK\$'000	Financial year ended 31 December		
	1998	1999	2000
Cash flow from operating activities			
Profit before taxation	17,936	7,106	17,154
Adjustments for depreciation, amortisation, interest, investment income and loss on disposal of fixed assets	4,906	6,270	8,133
Adjustments for changes in working capital			
(Increase)/Decrease in inventories	457	478	(19)
(Increase)/Decrease in debtors, deposits and prepayments	5,070	(2,553)	(2,403)
Increase/(Decrease) in creditors and accrued charges	(13,727)	3,444	(1,786)
	(8,200)	1,369	(4,208)
Cash generated from operations	14,642	14,745	21,079
Dividend paid	(16,000)	—	(17,000)
Interest received	195	71	228
Investment income	642	497	394
Income taxes paid	(1,610)	(1,338)	(784)
Net cash from (used in) operating activities	(2,131)	13,975	3,917
Cash flow from investing activities			
Receipts from sale of fixed assets	12	—	—
Payments to acquire fixed assets	(3,085)	(740)	(5,613)
Payments to acquire long term investments	(3,512)	(10,568)	(11,415)
Net cash used in investing activities	(6,585)	(11,308)	(17,028)
Cash flow from financing activities			
Funds received from Subscription Agreements ¹	—	—	21,220
Share issue and pre-operating costs	—	—	(1,086)
Net cash from financing activities	—	—	20,134
Net increase (decrease) in cash and cash equivalents	(8,716)	2,667	7,023

Note:—

1 Subscription Agreements entered into by the Company with Spectra Technologies Limited (“Spectra”), Arthur Tan Keng Hock, Sim Seng Kiang, Cruxible Pte Ltd and CTI II Limited.



FY 1998

In FY 1998, we generated net cash flow from operating activities before changes in working capital of approximately HK\$22.8 million. The net decrease in cashflow due to changes in working capital amounted to approximately HK\$8.2 million, mainly attributable to a decrease in creditors and accrued charges of approximately HK\$13.7 million offset by a decrease in debtors, deposits and prepayments of approximately HK\$5.1 million.

The net cash generated from operations of approximately HK\$14.6 million was utilised for the payment of dividends of HK\$16.0 million.

The HK\$6.6 million cash used in investing activities was primarily attributable to purchases of fixed assets and long term investments in animation productions of approximately HK\$3.1 million and HK\$3.5 million respectively.

FY 1999

In FY 1999, we generated net cash flow from operating activities before changes in working capital of approximately HK\$13.4 million. The net increase in cashflow due to changes in working capital amounted to approximately HK\$1.4 million which was mainly due to an increase in creditors and accrued charges of approximately HK\$3.4 million offset by an increase in debtors, deposits and prepayments of approximately HK\$2.6 million.

The net cash generated from operations of approximately HK\$14.7 million was utilised for the payment of income taxes of approximately HK\$1.3 million.

The HK\$11.3 million cash used in investing activities was primarily attributable to our long term investments in animation productions and purchases of fixed assets of approximately HK\$10.6 million and HK\$0.7 million respectively.

FY 2000

In FY 2000, we generated net cash flow from operating activities before changes in working capital of approximately HK\$25.3 million. The net decrease in cashflow due to changes in working capital amounted to approximately HK\$4.2 million which were mainly due to an increase in debtors, deposits and prepayments and a decrease in creditors and accrued charges of approximately HK\$2.4 million and 1.8 million respectively.

The net cash generated from operations of approximately HK\$21.1 million was utilised for the payment of dividends of HK\$17.0 million.

The HK\$17.0 million cash used in investing activities was primarily attributable to our long term investments in animation productions and purchases of fixed assets of approximately HK\$11.4 million and HK\$5.6 million respectively.

We recorded a net cash inflow of approximately HK\$20.1 million from financing activities due primarily to the funds received from Subscription Agreements (as set out in the footnote on the previous page) of approximately HK\$21.2 million while marginally offset with the cash outflow of approximately HK\$1.1 million arising from share issue and pre-operating costs.

REVIEW OF FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have primarily funded our operations and business expansion through a combination of shareholders' equity and operating cash flows.

As at 31 December 2000, net current assets and shareholders' fund amounted to approximately HK\$15.3 million and HK\$51.6 million respectively. There had been no bank borrowings from FY 1995 to FY 2000.

FY 1995 to FY 1996

Fixed assets increased by HK\$3.2 million in FY 1996 from HK\$3.6 million in FY 1995 to HK\$6.8 million in FY 1996 due mainly to the acquisition of computer equipment amounting to HK\$4.0 million with the implementation of the Animo 2D animation system.

Long term investments increased by HK\$2.2 million from HK\$6.5 million in FY 1995 to HK\$8.7 million in FY 1996 mainly due to our investment in Yoram Gross' *Tabaluga*.

Current assets increased by approximately HK\$0.3 million or 1.7% due mainly to an increase of HK\$2.2 million in cash and bank balances which were offset by decreases in inventories of HK\$0.6 million and debtors, deposits, prepayments and other receivables of HK\$1.3 million. Current liabilities decreased by HK\$4.7 million or 34.8% primarily due to a decrease in amount due to ultimate holding company and related company of HK\$4.0 million and creditors and accrued charges of HK\$0.4 million.

Working capital increased by HK\$4.9 million from HK\$1.8 million in FY 1995 to HK\$6.7 million in FY 1996 due mainly to the HK\$1.5 million reduction to the amount payable to the Group's then ultimate holding company, Goldtron Limited, a company listed in Singapore, and the HK\$2.5 million reduction in the amount payable to the then fellow subsidiary, Swilynn (HK) Ltd., a company incorporated in Hong Kong. The loan from the then ultimate holding company was provided in FY 1993, while the loan from the then fellow subsidiary was provided in FY 1991. Both loans were for the Group's working capital.

Debtors' turnover period increased from approximately 62 days in FY 1995 to 75 days in FY 1996 primarily due to higher percentages of total debtors invoiced in December from 6.1% to 93.2% which contributed to higher debtor balances. Creditors' turnover period increased from approximately 40 days in FY 1995 to 68 days in FY 1996 primarily due to higher purchases of raw materials as animation was still produced manually.

Proforma shareholders' equity increased by approximately HK\$10.3 million after the dividend payment of HK\$3.0 million due primarily to increase in retained profits.

FY 1996 to FY 1997

Fixed assets increased by approximately HK\$4.0 million from HK\$6.8 million in FY 1996 to HK\$10.9 million in FY 1997 due mainly to the acquisition of more computer equipment amounting to HK\$5.8 million in line with our increased use of the Animo 2D animation system and the purchase of a 35mm film recorder.

Long term investments increased by HK\$3.1 million from HK\$8.7 million in FY 1996 to HK\$11.8 million in FY 1997 mainly due to investments in *Tom Sawyer* and Yoram Gross' *Skippy*. Due to a change in the accounting estimate made by the Company, an additional amortisation of approximately HK\$0.6 million was provided for, representing the period of the put option which had elapsed as of the end of FY 1997.

Current assets increased approximately by HK\$8.5 million or 54.8% mainly due to an increase in cash and bank balances by HK\$6.7 million and debtors, deposits, prepayments and other receivables by HK\$2.1 million. Current liabilities increased by HK\$11.2 million or 128.3% due to a 185.4% increase in creditors and accrued charges from HK\$6.8 million in FY 1996 to HK\$19.4 million in FY 1997 and HK\$0.5 million increase in taxation. There was also a HK\$12.6 million increase in creditors relating to



prepayments by our customers for episodes in progress relating mainly to Tundra Productions' *Bible Video Series*, *Rudolph 2D*, *The Legends of Camelot* and Animation Productions' *Football Story* which increased by HK\$12.0 million from HK\$4.4 million in FY 1996 to HK\$16.4 million in FY 1997. At the end of FY 1997, 16 episodes were only partially completed, and as such, treated as work-in-progress at year-end.

Working capital declined by HK\$2.7 million from HK\$6.7 million in FY 1996 to HK\$4.0 million in FY 1997 due mainly to a dividend payment of HK\$11.0 million (as compared to HK\$3.0 million in FY 1996).

Debtors' turnover period decreased from approximately 75 days in FY 1996 to 66 days in FY 1997. The decrease in the percentage of total debtors invoiced in December from 93.2% to 82.8% was offset by an increase in total debtors from approximately HK\$8.3 million to HK\$9.2 million. Creditors' turnover period decreased from approximately 68 days in FY 1996 to 56 days in FY 1997 primarily due to smaller purchases of raw materials.

Proforma shareholders' equity increased by approximately HK\$4.4 million after the dividend payment of HK\$11.0 million due mainly to an increase in retained profits.

FY 1997 to FY 1998

Fixed assets remained fairly stable with the purchase of additional computer workstations, animation software and office equipment amounting to HK\$3.1 million being largely offset by depreciation amounting to HK\$3.0 million.

Long term investments increased by HK\$0.8 million from HK\$11.8 million in FY 1997 to HK\$12.6 million in FY 1998 mainly due to new investments in Southern Star's *Sam*, Animation Productions' *Yolanda*, Yoram Gross' *Flipper* and additional investments in Yoram Gross' *Skippy* as additional animation work was performed. This resulted in additional long term investments in accordance with our agreement to take up an agreed percentage of the project value. The investments were partly offset by additional amortisation relating to two productions, a decision made by the Directors, taking into consideration higher discount rates and lower expected income as a result of the Asian financial crisis, to accurately reflect the carrying value of the long term investments.

Current assets decreased by 59.6% or HK\$14.2 million from HK\$23.9 million in FY 1997 to HK\$9.7 million in FY 1998 due to reductions in inventories by HK\$0.5 million, debtors, deposits, prepayments and other receivables by HK\$5.1 million and cash and bank balances by HK\$8.7 million. Inventory decreased with the delivery of completed episodes such as Animation Productions' *Football Story*, Yoram Gross' *Skippy* and Tundra Productions' *Bible Video Series*. Debtors were lower despite the increase in turnover as the Group had already received payments in advance for a large proportion of animation work completed. The dividend payment of HK\$16.0 million in FY 1998 as compared to HK\$11.0 million in FY 1997 primarily resulted in the decrease of cash balances. Current liabilities decreased by HK\$13.6 million from HK\$19.9 million in FY 1997 to HK\$6.4 million in FY 1998 mainly due to a decrease of HK\$13.7 million in the prepayments by our customers for episodes in progress.

Working capital declined by HK\$0.7 million from HK\$4.0 million in FY 1997 to HK\$3.3 million in FY 1998 with declines in current assets matching declines in current liabilities.

Debtors' turnover period decreased from approximately 66 days in FY 1997 to 45 days in FY 1998 mainly due to a decrease in the percentage of total debtors invoiced in December from 82.8% to 80.3% and the decrease in debtors from approximately HK\$9.2 million to HK\$4.2 million. Creditors' turnover period decreased from approximately 56 days in FY 1997 to 47 days in FY 1998 primarily due to lower purchases of raw materials as we switched to computer animation.

Dividends declared and paid, amounting to HK\$16.0 million, largely matched the profit attributable for the year. As a result, shareholders' funds remained fairly constant.

FY 1998 to FY 1999

Fixed assets decreased by approximately HK\$2.6 million from FY 1998 to FY 1999 due to the purchases of computers, software, office equipment and leasehold improvement amounting to HK\$0.7 million and being more than offset by depreciation amounting to HK\$3.2 million.

Long term investments increased by HK\$7.1 million from HK\$12.6 million in FY 1998 to HK\$19.7 million in FY 1999. This was due to new investments in Animation Productions' *Fantaghiro* and additional investments in Animation Productions' *Yolanda* and Yoram Gross' *Flipper* less additional amortisation of approximately HK\$1.0 million relating to a certain investment. The delay in marketing and lower than expected market demand for our animation production necessitated an adjustment to its carrying value.

In conjunction with the expiry of the television and home video distribution rights for *Blinky Bill* in PRC on 31 December 1998, the investment of approximately HK\$0.3 million was reversed from the cost of investment, with a corresponding entry in the amortisation schedule. The net effect would be as though the distribution rights were removed from the Company's accounts.

Please refer to page 40 of this Prospectus for more details on our write-off policy.

Current assets increased by HK\$4.7 million or 49.1% attributable mainly to increases in debtors, deposits, prepayments and other receivables by HK\$2.6 million and cash and bank balances by HK\$2.7 million, offset by a HK\$0.5 million decrease in inventories. Trade debtors increased as billing for two animation series amounting to HK\$5.8 million was done towards the end of FY 1999 and the amount was only paid in FY 2000. This is partially offset by a HK\$0.5 million decrease in inventories. Current liabilities increased by HK\$4.8 million mainly attributable to a HK\$3.4 million increase in creditors and accrued charges and an increase in dividend payable of HK\$2.0 million. The increase in creditors and accrued charges was due mainly to an advance payment of HK\$4.5 million from Tundra Productions for the production of *Rudolph 3D* and *Stellaluna*.

Working capital remained fairly constant at HK\$3.2 million as at the end of FY 1999 with increases in both current assets and current liabilities.

Debtors' turnover period remained unchanged at approximately 45 days in FY 1999. The decrease in the percentage of total debtors invoiced in the last month of December from 80.3% to 73.9% was offset by the increase in total debtors from approximately HK\$4.2 million to HK\$6.8 million. Creditors' turnover period increased from approximately 47 days in FY 1998 to 63 days in FY 1999 primarily due to a disputed amount with a creditor brought forward from 1995.

Proforma shareholders' equity increased by approximately HK\$4.4 million after the dividend payment of HK\$2.0 million.

FY 1999 to FY 2000

Fixed assets increased by approximately HK\$1.7 million from FY 1999 to FY 2000 due to the purchases of computer, software, office equipment and leasehold improvement amounting to HK\$5.6 million and being more than offset by depreciation amounting to HK\$3.8 million.

Long term investments increased by HK\$6.6 million from HK\$19.7 million in FY 1999 to HK\$26.3 million in FY 2000 mainly due to new investments in Animation Productions' *Toonimals* and *Nicholas* and France Animation's *Wheel Squad*. No provisions for amortisation were made as the distributions of these productions had not yet commenced as of 31 December 2000. Additional amortisation of approximately HK\$1.4 million was provided for in relation to four investments, taking into consideration lower than expected licensing income, weak demand, depreciating currencies and generally longer periods over which costs of investments were recovered.

Current assets increased by approximately 65.6% or HK\$9.4 million from HK\$14.4 million in FY 1999 to HK\$23.8 million in FY 2000 due mainly to increases in debtors, deposits, prepayments and other receivables by approximately HK\$2.4 million and an increase in cash and bank balances by HK\$7.0 million. The increase in debtors was in line with the increase in turnover. Current liabilities decreased



by approximately HK\$2.7 million from HK\$11.2 million in FY 1999 to HK\$8.5 million in FY 2000 mainly due to a decrease in creditors and accrued charges of HK\$1.8 million offset by an increase in taxation of HK\$1.1 million. The decline in creditors and accrued charges was due mainly to a decrease in customer receipts in advance as episodes of animation series were delivered. No dividend payable was outstanding as at 31 December 2000 as compared to HK\$2.0 million as at 31 December 1999.

Net current assets increased by approximately HK\$12.1 million from HK\$3.2 million in FY 1999 to HK\$15.3 million in FY 2000. As noted above, this was primarily due to increases in debtors and cash balances, decreases in creditors and accrued charges and dividend payable.

Debtors' turnover period decreased from approximately 45 days in FY 1999 to 38 days in FY 2000. The increase in the percentage of total debtors invoiced in the last month of December from 73.9% to 81.8% was offset by the decrease in total debtors from approximately HK\$6.8 million to HK\$6.2 million. Creditors' turnover period decreased from approximately 63 days in FY 1999 to 58 days in FY 2000 primarily due to the write-back of a disputed amount with a creditor which has been carried forward since 1995.

As the bulk of the profits for the year were paid out as dividends, proforma shareholders' equity increased by approximately HK\$20.4 million due primarily to share subscriptions by new investors which raised approximately HK\$21.2 million.

As at 31 December 2000, there was no material commitment for capital expenditure made by the Company.

INFLATION

Inflation did not have a material impact on our financials for the period under review.

SEASONALITY

Our revenue and business in general are not affected by seasonality.

GOVERNMENT REGULATION

By virtue of our operations via Colorland (Shenzhen), we operate within the framework of PRC legal system and are regulated thereby. PRC legal system is based on PRC Constitution and is made up of written laws, regulations, circulars, directives and other governmental orders such as, *inter alia*, the Company Law of PRC, Securities Law of PRC, Wholly Foreign Owned Enterprise Law of PRC and its implementing rules ("PRC Act").

The main purpose of PRC Act is to expand economic co-operation and technological exchange with other countries and to promote the development of the economy of PRC through permitting foreign entities and individuals to establish enterprises exclusively with foreign capital in PRC and the protection of rights and interests of such enterprises.

Further, PRC Act generally provides, *inter alia*, as to who is qualified to set up a wholly foreign owned enterprise in PRC, the procedure involved and the obligation and rights of such a wholly foreign owned enterprise. PRC Act only applies where an enterprise is wholly established by foreign investors, whether these are entities or individuals. Investors from Hong Kong, Taiwan and Macao are treated as foreign investors.

Wholly owned foreign enterprises may be entitled to certain benefits in comparison to local entities such as preferential tax treatment of customs duty, income tax and tax refund for investment, although it is uncertain whether such benefits will continue once PRC becomes a member of the World Trade Organisation.

There are no tax concessions for PRC companies in general albeit for certain enterprises in the high-technology sector.

PROSPECTS AND FUTURE PLANS

The current slow-down in the major economies¹ has resulted in television stations taking a more cautious approach in respect of participation in both 2D and 3D animation productions. As the participation of such major television stations as co-producers in the equity (by way of direct or indirect investments) of animation TV series is crucial, some animation projects under discussion with our producers have been invariably delayed.

Based on the number of projects secured to-date and assuming projects under discussion are delayed or not secured, we expect our revenues and results in the current financial year to be significantly lower than that of FY 2000. However, barring unforeseen circumstances, we expect the Group to be profitable in FY 2001.

Our future plans are as follows:-

(a) *Expansion of 3D animation capacity*

The successful use of 3D animation in blockbuster movies, such as Toy Story, has generally increased awareness and consequently the demand for 3D animation work. Accordingly, the Directors believe animation is undergoing a period of growth in terms of animation productions and broadcasting. In particular, there are few animation studios in low cost regions involved in 3D animation work. As a result, we believe that there is currently a shortage of 3D animation programming content available for the television and video markets, which have a lower budget compared to films targeted at the movie audience.

While an animation studio may incur cost relating to (i) the purchase of hardware and specialised 3D software and (ii) the training of 3D animation artists, we expect that the cost of producing each 3D animation project will decrease over time. This is because 3D animation background and characters once created can be modified and then re-used.

Though we started our 3D animation facility since 1999, we have involved only a small number of animators on our 3D animation productions. We currently have 50 professional staff working on an 88-minute 3D animation contract. We will continue to expand our 3D animation capacity in accordance with the project requirements with funds generated internally and/or from bank borrowings.

We are also exploring opportunities in the provision of 3D animation services for the computer gaming industry.

Note:-

1 The *World Economic Outlook* in May 2001 by the International Monetary Fund ("IMF") has forecasted a general decline in global output. A summary of the survey is as follows:-

%	Current Projections		
	2000	2001	2002
World output	4.8	3.2	3.9
Major advanced economies	3.8	1.6	2.4
United States	5.0	1.5	2.5
Japan	1.7	0.6	1.5
EU	3.4	2.4	2.8

Source: IMF, *The World Economic Outlook*, May 2001.



(b) *Production of two 3D television series and/or feature length video over the next three years*

Since our incorporation, we have been providing animation services to our customers. These customers would provide us with the storyline and animation characters, while we carry out the animation services. Upon completion of our animation work, our customers will carry out post-production work, such as editing, and then distribute the animation series or film to television stations.

We intend to develop and produce on our own 3D animation TV series and/or feature length video. These will be based on characters and storyline which are developed by third parties appointed by us.

We intend to use our net proceeds of HK\$10.8 million to produce these two projects. As the full cost of the projects which includes, *inter alia*, the costs of producing the storyline, scripts, storyboard, characters, key background designs, dialogue recording and staff costs is estimated to be approximately HK\$50.0 million, we are considering either co-producing or obtaining additional financing for the difference between the estimated costs of production and the net invitation proceeds.

These 3D animation projects will be primarily targeted at the television and video market and if the series become popular, potential sources of revenue will come from licensing the use of the characters by third parties for promotions, toys, and other merchandise.

Please refer to page 24 of this Prospectus for more details on the risks related to our production of our own 3D animation projects.

(c) *Continuous upgrading of our facilities and animation capabilities*

We will continue to upgrade our studio capabilities by (i) incorporating the use of technology such as the latest animation software which becomes available, (ii) expanding our staff strength and training them. The continuous upgrading and improvement of our facilities and animation capabilities would be in tandem with the demand for our services. We are always mindful of the need to continually upgrade our facilities and capabilities and will use internally generated funds and/or bank borrowings to achieve these objectives.

(d) *Provision of content for the Internet*

Our Directors believe that there is demand by Internet websites for animation content to attract Internet users in general. To cater to this demand, we have started to produce animation based on Chinese fables and legends of one to two minutes' duration each for sale to Internet websites in general.

To date, we have spent approximately HK\$227,000 out of the HK\$700,000 budgeted on the above. Our Directors do not expect this to contribute significantly to the Group's revenue within the next few years.

GENERAL INFORMATION ON OUR COMPANY AND OUR GROUP

SHARE CAPITAL

Our Company was incorporated in Bermuda on 10 August 2000 under the Bermuda Act as an exempted company limited by shares with an authorised share capital of HK\$100,000 comprising 100,000 ordinary shares of HK\$1.00 each. On 23 August 2000, 100,000 nil paid ordinary shares of HK\$1.00 each were issued to Mr Sek Siu Ming. Our Company has not established a place of business in Singapore.

Pursuant to written resolutions passed by Mr Sek Siu Ming, as the sole shareholder of our Company, on 6 September 2000, Mr Sek (in his capacity as sole shareholder) approved, *inter alia*, the following:–

- (a) An increase in the authorised share capital of our Company from HK\$100,000 to HK\$50,000,000 by the creation of an additional 49,900,000 ordinary shares of HK\$1.00 each;
- (b) The allotment and issue of 17,900,000 new ordinary shares of HK\$1.00 each in our Company to the shareholders of Colorland HK pursuant to the Restructuring Exercise; and
- (c) The crediting as fully paid of the 100,000 nil paid ordinary shares of HK\$1.00 each which were allotted and issued to Mr Sek Siu Ming.

Pursuant to the Directors' resolutions passed on 6 September 2000, the Directors of the Company approved the following:–

- (a) The allotment and issue of 2,022,472 new ordinary shares of HK\$1.00 each to Spectra Technologies Limited ("Spectra") pursuant to a Subscription Agreement dated 6 September 2000;
- (b) The allotment and issue of 1,011,236 new ordinary shares of HK\$1.00 each to Arthur Tan Keng Hock pursuant to a Subscription Agreement dated 6 September 2000; and
- (c) The allotment and issue of 1,011,236 new ordinary shares of HK\$1.00 each to Sim Seng Kiang pursuant to a Subscription Agreement dated 6 September 2000.

Pursuant to the Directors' resolutions passed on 12 September 2000, the Directors of the Company approved the following:–

- (a) The allotment and issue of 1,211,815 new ordinary shares of HK\$1.00 each to Cruxible Pte Ltd pursuant to a Subscription Agreement dated 15 September 2000; and
- (b) The allotment and issue of 605,908 new ordinary shares of HK\$1.00 each to CTI II Limited pursuant to a Subscription Agreement dated 15 September 2000.

Pursuant to the Directors' resolution passed on 19 April 2001, the following resolution was approved:–

- (a) The allotment and issue of 1,249,294 new ordinary shares of HK\$1.00 each to Luo Hui Ling, pursuant to a Subscription Agreement dated 6 September 2000.

On 12 May 2001, a special general meeting was held whereby the shareholders of our Company approved, *inter alia*, the following:–

- (a) An increase in the authorised share capital of our Company from HK\$50,000,000 to HK\$80,000,000 comprising 80,000,000 ordinary shares of HK\$1.00 each;
- (b) The Stock Split;
- (c) The Bonus Issue;
- (d) The issue of 20,000,000 New Shares which are the subject of this Invitation and which, when fully paid, allotted and issued, will rank *pari passu* in all respects with the existing Shares of our Company;
- (e) The adoption of the new Bye-laws of our Company; and



- (f) The authorisation to the Directors to issue, in addition to the New Shares, such further shares at any time to such persons, upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit (whether by way of rights, bonus or otherwise), provided that the aggregate number of shares to be issued pursuant to such authorisation shall not exceed 50% of the issued share capital of our Company for the time being, and provided further that the aggregate number of Shares to be issued other than on a pro-rata basis to shareholders of our Company does not exceed 20% of the issued share capital of our Company. Such a general mandate shall only remain in force until:-
- (i) the conclusion of the next annual general meeting of the Company following the passing of the resolution by the shareholders of the Company at which time it shall lapse, unless by ordinary resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or
 - (ii) the shareholders of the Company by an ordinary resolution in a general meeting revoke or vary such general mandate, whichever is the earlier.

Upon the allotment and issue of the New Shares which are the subject of the Invitation, the resultant issued and paid-up share capital of our Company will be increased to HK\$40,00,000 comprising 100,000,000 Shares.

Details of changes in the issued and paid-up capital of our Company from 10 August 2000, being the date of incorporation and the resultant issued and paid up capital immediately after the Invitation are as follows:-

	Number of ordinary shares	HK\$
Issued ordinary shares of HK\$1.00 each as at 23 August 2000 (issued as nil paid)	100,000	—
Issue of ordinary shares of HK\$1.00 each pursuant to the Restructuring Exercise	17,900,000	17,900,000
100,000 nil paid ordinary shares of HK\$1.00 each credited as fully paid, at par, pursuant to the Restructuring Exercise	—	100,000
Issue of ordinary shares of HK\$1.00 each pursuant to the various Subscription Agreements	7,111,961	7,111,961
	<hr/> 25,111,961	<hr/> 25,111,961
Stock Split	62,779,903	25,111,961
Bonus Issue	17,220,097	6,888,039
	<hr/> 80,000,000	<hr/> 32,000,000
Pre-Invitation share capital	80,000,000	32,000,000
New Shares to be issued for public subscription	20,000,000	8,000,000
	<hr/> 100,000,000	<hr/> 40,000,000
Post- Invitation Share capital	<hr/> <hr/> 100,000,000	<hr/> <hr/> 40,000,000

The authorised share capital and the shareholders' funds of the Company as at 31 December 2000, after adjustment for the issue of new shares to Mdm Luo Hui Ling as described on page 53 of this Prospectus, increase in authorised share capital, the Stock Split, the Bonus Issue and the issue of New Shares are set forth below. These statements should be read in conjunction with the Accountants' Report set out on pages 83 to 99 of this Prospectus.

HK\$'000	As at 10 August 2000	After Restructuring & fund raising exercise tabled above	After Invitation
Authorised Share Capital			
Comprising:-			
Ordinary shares of HK\$1.00 each	100	—	—
Ordinary shares of HK\$0.40 each	—	80,000	80,000
Shareholders' Funds			
Issued and paid-up share capital			
Comprising:-			
Ordinary shares of HK\$1.00 each (issued as nil paid)	—	—	—
Ordinary shares of HK\$0.40 each	—	32,000	40,000
Retained profits	—	4,890	4,890
Share Premium	—	9,695	12,448
Distributable capital reserve		8,577	8,577
		<hr/>	
Shareholders' Funds	—	55,162	65,915
		<hr/> <hr/>	



OWNERSHIP STRUCTURE AND MAJOR SHAREHOLDERS

The shareholders of our Company and their respective shareholdings in our Company after the Stock Split and Bonus Issue and immediately prior to the Invitation are set out below:–

	Direct Interest		Indirect Interest		Total Interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<i>Directors</i>						
Sek Siu Ming	22,937,277	28.7	4,158,318	5.2	27,095,595	33.9
Luo Hui Ling ¹	4,158,318	5.2	22,937,277	28.7	27,095,595	33.9
Beni Prananto ²	—	—	22,937,277	28.7	22,937,277	28.7
Lai Ka Tim	—	—	—	—	—	—
Jackson Lee @ Li Chik Sin	—	—	—	—	—	—
Chan Wing Leong	—	—	—	—	—	—
<i>Holder of more than 5% (not including those whose shareholdings have been disclosed under “Directors” Above)</i>						
Wonder Point Technology Limited ²	22,937,277	28.7	—	—	22,937,277	28.7
Wiseland Development Ltd ³	6,129,350	7.7	—	—	6,129,350	7.7
Spectra Technologies Limited ⁴	6,443,056	8.1	—	—	6,443,056	8.1
Sim Wong Hoo ^{5 6}	—	—	5,790,780	7.2	5,790,780	7.2
<i>Holder of less than 5% (under moratorium)</i>						
Arthur Tan Keng Hock ⁴	3,221,528	4.0	6,443,056	8.1	9,664,584	12.1
Sim Seng Kiang ⁴	3,221,528	4.0	6,443,056	8.1	9,664,584	12.1
Cruxible Pte Ltd ⁵	3,860,519	4.8	—	—	3,860,519	4.8
<i>Other shareholders (not under moratorium)</i>						
Chin Wui Ching	2,293,727	2.9	—	—	2,293,727	2.9
David Chen Tou Sin	2,867,159	3.6	—	—	2,867,159	3.6
CTI II Limited ⁶	1,930,261	2.4	—	—	1,930,261	2.4
Total	<u>80,000,000</u>	<u>100.0⁷</u>				

Notes:–

- Luo Hui Ling is the spouse of Sek Siu Ming.
- Wonder Point Technology Limited (incorporated in the British Virgin Islands on 18 May 2000) is solely owned by Beni Prananto.
- Wiseland Development Ltd (incorporated in the British Virgin Islands on 12 January 2000) is solely owned by Tay See Hooi.
- Spectra is a direct investment company. Arthur Tan Keng Hock and Sim Seng Kiang are directors of Spectra. They are each deemed to be interested in the shares held by Spectra by virtue of their each holding 50% of the voting shares of Spectra.
- Sim Wong Hoo has an equity interest of more than 50% in Cruxible Pte Ltd.
- CTI II Limited is a wholly-owned subsidiary of Creative Technology Ltd, a listed company in which Sim Wong Hoo holds not less than 20% of the voting shares.
- Interest in % may not add up to 100% due to rounding off.

Please refer to pages 104 and 105 of this Prospectus for details of significant changes in the ownership held by major shareholders during the past three years.

The shareholders of our Company and their respective shareholdings in our Company immediately after the Invitation are set out below:–

	Direct Interest		Indirect Interest		Total Interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<i>Directors</i>						
Sek Siu Ming	22,937,277	22.9	4,158,318	4.2	27,095,595	27.1
Luo Hui Ling	4,158,318	4.2	22,937,277	22.9	27,095,595	27.1
Beni Prananto	—	—	22,937,277	22.9	22,937,277	22.9
Lai Ka Tim	—	—	—	—	—	—
Jackson Lee @ Li Chik Sin	—	—	—	—	—	—
Chan Wing Leong	—	—	—	—	—	—
<i>Holder of more than 5% (not including those whose shareholdings have been disclosed under “Directors” above)</i>						
Wonder Point Technology Limited	22,937,277	22.9	—	—	22,937,277	22.9
Wiseland Development Ltd	6,129,350	6.1	—	—	6,129,350	6.1
Spectra Technologies Limited	6,443,056	6.4	—	—	6,443,056	6.4
Sim Wong Hoo	—	—	5,790,780	5.8	5,790,780	5.8
<i>Holder of less than 5% (under moratorium)</i>						
Arthur Tan Keng Hock	3,221,528	3.2	6,443,056	6.4	9,664,584	9.7
Sim Seng Kiang	3,221,528	3.2	6,443,056	6.4	9,664,584	9.7
Cruxible Pte Ltd	3,860,519	3.9	—	—	3,860,519	3.9
<i>Other shareholders (not under moratorium)</i>						
Chin Wui Ching ¹	2,293,727	2.3	—	—	2,293,727	2.3
David Chen Tou Sin ¹	2,867,159	2.9	—	—	2,867,159	2.9
CTI II Limited	1,930,261	1.9	—	—	1,930,261	1.9
<i>Public</i>	20,000,000	20.0	—	—	20,000,000	20.0
Total	100,000,000	100.0 ²				

Notes: –

1 Messrs Chin Wui Ching and David Chen Tou Sin are deemed as public as they are persons other than (a) Directors, Chief Executive Officer or substantial shareholders of the Group, and (b) associates of the persons in (a).

2 Interest in % may not add up to 100% due to rounding off.

RELATIONSHIP WITH DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Mdm Luo Hui Ling is the spouse of Mr Sek Siu Ming.

Save as disclosed above, none of our substantial shareholders are related to one another or to any Director.

Messrs Chin Wui Ching and David Chen Tou Sin are not related to each other, or to any of the Directors and Executive Officers of the Group.



RESTRUCTURING EXERCISE

In connection with the Invitation, a restructuring exercise was undertaken pursuant to which our Company became our holding company (the “Restructuring Exercise”). The Restructuring Exercise involved the following:–

- (i) the incorporation of our Company on 10 August 2000;
- (ii) the allotment and issue of 100,000 nil paid ordinary shares as subscriber shares of HK\$1.00 each to Mr Sek Siu Ming;
- (iii) the increase in our authorised share capital from HK\$100,000 divided into 100,000 ordinary shares of HK\$1.00 each to HK\$50,000,000 divided into 50,000,000 ordinary shares of HK\$1.00 each; and
- (iv) our entry into of a sale and purchase agreement dated 6 September 2000 pursuant to which our Company purchased from Mr Sek Siu Ming, Wonder Point Technology Limited, Wiseland Development Ltd, Messrs Chin Wui Ching and Chen Tou Sin David, the entire issued share capital of Colorland HK¹ comprising 3,250,000 ordinary shares of HK\$1.00 each in consideration for which (a) our Company allotted and issued in aggregate 17,900,000 ordinary shares of HK\$1.00 each in the capital of our Company and (b) the initial 100,000 ordinary shares of HK\$1.00 each issued to Mr Sek Siu Ming were credited as fully paid.

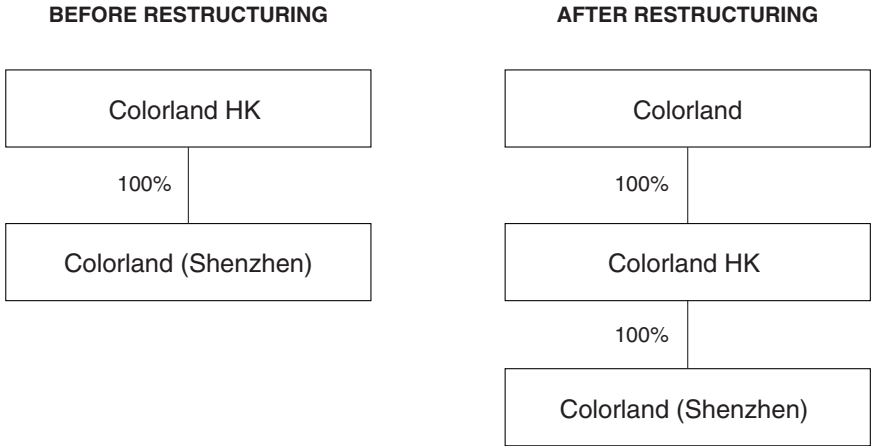
After the Restructuring Exercise, Colorland HK became a wholly-owned subsidiary of our Company.

Note:–

1 One ordinary share of HK\$1.00 in the capital of Colorland HK is held on trust by Mr Sek Siu Ming for our Company pursuant to the requirement under Hong Kong law that a company incorporated in Hong Kong must have at least two shareholders.

GROUP STRUCTURE

Our structure before and after the Restructuring Exercise is as follows:–



Colorland is our Group holding company. It was incorporated on 10 August 2000. Colorland HK was incorporated on 11 December 1990 and its issued and paid-up capital is HK\$3,250,000.

Colorland HK provides marketing, finance and administrative support to Colorland (Shenzhen) which is the main operating company which undertakes our animation work and which has a representative office in Shanghai.

Colorland (Shenzhen) was incorporated on 16 May 1991 with a registered capital of US\$500,000 and is our animation services and production studio.

MORATORIUM

As evidence of their commitment, Mr Sek Siu Ming and Mdm Luo Hui Ling, who hold an aggregate direct interest of approximately 27.1% of the enlarged issued and paid-up share capital of our Company immediately following completion of the Invitation, have undertaken: –

- (a) not to sell, transfer or otherwise dispose of any part of their respective interests in our Company for a period of six months commencing on the date of listing of our Company on the SGX-ST; and
- (b) for the subsequent six months thereafter, to maintain at least 50% of each of their respective interests held in our Company immediately after the Invitation.

Wonder Point Technology Limited (“Wonder Point”) and Wiseland Development Ltd (“Wiseland”) who collectively hold 29.1% of the enlarged issued and paid-up share capital of our Company immediately following completion of the Invitation, have undertaken:–

- (a) not to sell, transfer or otherwise dispose of any part of their respective interests in our Company for a period of six months commencing on the date of listing of our Company on the SGX-ST ; and
- (b) for the subsequent six months thereafter, to maintain at least 50% of each of their respective interests held in our Company immediately after the Invitation.

Beni Prananto, who presently owns 100% of the voting shares in Wonder Point, has undertaken not to sell, transfer or otherwise dispose of any part of his interest in Wonder Point for a period of 12 months commencing on the date of listing of our Company on the SGX-ST.

Tay See Hooi, who presently owns 100% of the voting shares in Wiseland, has undertaken not to sell, transfer or otherwise dispose of any part of her interest in Wiseland for a period of 12 months commencing on the date of listing of our Company on the SGX-ST.

Messrs Arthur Tan Keng Hock and Sim Seng Kiang, who collectively hold 6.4% of the enlarged issued and paid-up share capital of our Company immediately following completion of the Invitation, have undertaken not to sell, transfer or otherwise dispose of any part of their respective interests in our Company for a period of six months commencing on the date of listing of our Company on the SGX-ST.

Spectra, which holds 6.4% of the enlarged issued and paid-up share capital of our Company immediately following completion of the Invitation, has undertaken not to sell, transfer or otherwise dispose of any part of their respective interests in our Company for a period of six months commencing on the date of listing of our Company on the SGX-ST.

Messrs Arthur Tan Keng Hock and Sim Seng Kiang who presently hold in aggregate 100% of the voting shares of Spectra have each undertaken not to sell, transfer or otherwise dispose of any part of their respective interests in Spectra for a period of six months commencing on the date of listing of our Company on the SGX-ST.

Cruxible Pte Ltd who holds 3.9% of the enlarged issued and paid-up share capital of our Company immediately following completion of the Invitation, has undertaken not to sell, transfer or otherwise dispose of any part of its interests in our Company for a period of six months commencing on the date of listing of our Company on the SGX-ST.



HISTORY AND BUSINESS

HISTORY

Mr Sek Siu Ming, our Group Chief Executive Officer, founded Colorland Hong Kong in 1991 with a 40% stake. The other 60% stake is held by an investor, Hong Kong Video Publishing Co. Ltd. (a subsidiary of Swilynn International (Holdings) Ltd¹). A wholly-owned subsidiary of Colorland Hong Kong, Colorland (Shenzhen) was set up in Shenzhen, PRC in 1991 to undertake our animation work.

We commenced business in 1991 as a sub-contractor to Japanese studios and was involved in French and Japanese animated film productions. Most of the services rendered by us at that time comprised piecemeal work involved in the various stages of 2D animation production such as layout, in-betweening and painting of backgrounds.

In 1992, we expanded our scope of services to include a wide range of animation activities from layout to camerawork. We also secured our first major contract with Yoram Gross Film Studio Pty Ltd (“Yoram Gross”) of Australia to provide full production services (from animation to camerawork) for a 26-episode half-hour cartoon series called *Blinky Bill*. We also participated indirectly in the investment of *Blinky Bill* through financing a portion of the cost of production. Since then, Yoram Gross has become one of our major clients.

In 1994, Goldtron Limited, a company listed in Singapore, purchased Swilynn International (Holdings) Ltd and subsequently renamed it as Goldtron Holdings Limited. The 60% share of Colorland Hong Kong was held in the name of Goldmarket Assets Limited, a subsidiary of Goldtron Holdings Limited.

In 1994, we were commissioned for a sequel series, *Blinky Bill II*. We also managed to secure our first contract with a British customer, Animation Productions Ltd (“Animation Productions”) for an animated series, *The Mozart Band*.

To complement our operations, Colorland (Shenzhen) set up a representative office in Shanghai, PRC in 1995. Its primary function was to co-ordinate the work done by freelance animators in Shanghai.

In 1996, we started using new production software which allowed us to replace the traditional manual cel-inking, painting and camerawork processes. The computer software allowed us to perform these processes digitally. We continued to invest in technology in 1997 in order for our animation work to be delivered in various output medium formats such as film, NTSC and PAL video tapes. For more information on our use of software, please refer to page 66 of this Prospectus.

In 1997, Goldtron Holdings Limited became the ultimate holding company of Colorland Hong Kong as the Singapore based Goldtron Limited was no longer the major shareholder of Goldtron Holdings Limited. In 1999, Goldtron Holdings Limited was renamed e-Kong Group Limited.

In 1999, we set up a 3D animation department and subsequently secured our first 3D animation contract from Tundra Productions for the production of a 88-minute production *Rudolph 3D*.

In June 2000, e-Kong Group Limited sold its shareholding in Goldmarket Assets Limited which in turn sold its 60% shareholding in Colorland Hong Kong to various parties, namely Wonder Point, Wiseland, Chen Tou Sin David and Chin Wui Ching.

The China Association of Enterprises with Foreign Investment, a national organisation, awarded Colorland (Shenzhen) with a title for excellent economic and export performance from 1997 to 1999. Its criteria for award include, *inter alia*, the ability to generate foreign exchange income through exports and the payment of taxes. In 1999, Colorland (Shenzhen) was also recommended as one of 23 model foreign enterprises in Shenzhen, a model enterprise that complies with the law, pay taxes, safeguards the welfare of its employees and has a good business reputation. Such awards contribute towards a good working relationship with the relevant PRC authorities.

Note:-

1 Swilynn International (Holdings) Ltd was listed on the Main Board of the Stock Exchange of Hong Kong.

BUSINESS

Traditionally, animation producers have concentrated on (i) the development of concepts and characters for animation productions and (ii) the marketing and distribution of the completed production. The intermediate process of actual animation is usually undertaken by an animation studio for the following reasons:-

- (i) the animation production process requires the use of a large number of skilled artists, which in developed markets such as Europe, North America and Australia would only be economically feasible for film productions with large budgets. Productions made for screening on television or video release typically require the use of animation studios in low cost countries; and
- (ii) animation work requires the use of specialised hardware and software and it would not be economically efficient for the animation producer to install such equipment for the production of a particular project.

Generally, there are different types of animation studios which focus on different areas of animation as described below:-

- (i) full length animation productions;
- (ii) commercials and advertisements;
- (iii) special effects footage for incorporation into feature films and videos; and
- (iv) computer games.

We are principally engaged in the provision of full length animation production services to international animation producers.

The contract value range with other details of our major contracts undertaken are as follows:-

Contract Value Range (HK\$ million)	Type of production	Year Awarded	Year of Completion/ Expected Completion	Customer	Title
3.0-5.9	Feature length video	November 1995	December 1996	Tundra Productions	Tom Sawyer*
	13-half hour TV episodes	May 2000	May 2001	Animation Productions	Nicholas*
6.0-8.9	26-half hour TV episodes	October 1994	December 1995	Animation Productions	The Mozart Band
	13-half hour TV episodes	April 1995	November 1996	Procidis	The Explorer
	13-half hour TV episodes	March 1997	October 1998	Southern Star	Sam*
9.0-11.9	26-half hour TV episodes	September 1992	September 1993	Yoram Gross	Blinky Bill I*
	26-half hour TV episodes	November 1995	November 1996	Yoram Gross	Tabaluga 1*
	26-half hour TV episodes	June 1996	February 1998	Yoram Gross	Skippy*
	26-half hour TV episodes	February 2000	July 2001	Yoram Gross	Tabaluga 2
	26-half hour TV episodes	February 2000	June 2001	Yoram Gross	Flipper & Lopaka 2



Contract Value Range (HK\$ million)	Type of production	Year Awarded	Year of Completion/ Expected Completion	Customer	Title
12.0-14.9	Feature length video	September 1997	September 1998	Tundra Productions	Rudolph 2D
	52-quarter hour TV episodes	October 1994	December 1995	Animation Productions	Canary Islands
	26-half hour TV episodes	July 1994	October 1995	Yoram Gross	Blinky Bill II*
	26-half hour TV episodes	July 1996	May 1997	Animation Productions	Elliot Mouse
	26-half hour TV episodes	November 1997	April 1998	Animation Productions	Football Story
	26-half hour TV episodes	May 1998	August 1999	Yoram Gross	Flipper*
	26-half hour TV episodes	October 1999	September 2000	France Animation	Wheel Squad*
	26-half hour TV episodes	December 1999	September 2000	Animation Productions	Toonimals*
15.0-17.9	Feature length video	September 1999	August 2001	Tundra Productions	Rudolph 3D
	26-half hour TV episodes	July 1998	December 1999	Animation Productions	Yolanda*
	26-half hour TV episodes	December 1998	December 1999	Animation Productions	Fantaghiro*
	13-45 minutes video	September 1996	September 1998	Tundra Productions	Bible Video Series

* The Group has long term investments relating to these productions. Blinky Bill I and Skippy were invested via loans while the rest were direct investments.

The above should be read in conjunction with pages 39 to 41 of this Prospectus which details our investment quantum, investment and interest income and cumulative amortisation of our long term investments.

An animation film producer typically arranges for the financing of the production and the preparation of the pre-production works which include, *inter alia*, the storyline, scripts, storyboard, characters, key background designs, dialogue recording and dialogue sheet. An animation studio will undertake the actual animation work. The scope of work undertaken by the animation studio in an animated production may vary, and may range from the provision of a full range of animation services or a specific part of the animation process or pre-production work. The completed work will be delivered by the animation studio in the form of video tape or film. The animation film producer will then manage the postproduction processes such as editing, scoring of music, sound effects and dubbing.

Most of the animated films produced by us are for broadcast on television or to be distributed by way of video tape, video compact discs or digital video discs. We also produce animation products for cinema release, these productions being primarily targeted at children. These animated productions are distributed by the producers to international television and cable stations for broadcast and to video distributors for sale.

We have moved to computer-assisted animation in 2D systems, and are now progressing into full 3D animation. We set up our 3D animation department in FY 1999 with 45 staff to develop our 3D animation capabilities. For more details on our use of 3D software, please refer to page 66 of this Prospectus. With the introduction of these 3D animation capabilities, we are able to provide a full range of animation services for both 2D and 3D production and to deliver our work in various output formats.

PRODUCTION PROCESS

2D Animation

Pre-production services

Pre-production materials are typically provided by the customer. These include (i) a storyboard setting out the key sketches or scenes with accompanying explanatory notes, (ii) character/props model design setting out the appearance of the character/props and (iii) key background model design setting out the appearance of the background. We provide pre-production services, if required by the customer.

Initial discussion with customer

With the pre-production materials, our chief animation director in charge of the series or project will then discuss with the customer on the overall requirements of production. The chief animation director is responsible for and oversees the entire animation process and may be assisted by up to six animation directors, each responsible for a few episodes.

Layout

The layout artist will then indicate the size of the area that falls within the sight of a camera, positioning and movements for the different scenes.

At this stage, layout checking is carried out to ensure that the positioning of the camera and relationship between the characters and the background is satisfactory.

Key animation

The key drawings of a scene are then identified and drawn by the animators. These involve the drawing of the key positions, actions and movements of the relevant characters based on the layouts prepared earlier. The key drawings typically depicts the start and end of a sequence of movements of the characters. The result is a series of drawings depicting the key movements of the characters, known as the key animation drawings. An exposure sheet will also be used to indicate the number of frames (indicative of the amount of time) allocated to each drawing.

Model checking

After the animation is approved by the animation director, animation modelling is then undertaken. This involves manually checking and correcting the drawings of the characters in order to ensure uniformity throughout the whole production.

In-betweening

Assistant animators are responsible for producing the drawings between the key drawings, a process known as in-betweening. The drawings are then cleaned up to produce more detailed and refined tracings. A line test, which checks the movement of the characters by showing the drawings in sequence, is then conducted.

Background painting

Painting of the backgrounds for each scene is based on the layout and key backgrounds. The background is either painted on paper with watercolour or acrylic paint although this can also be carried out on computer.

Scanning

The checks at each stage must prove satisfactory but both the cleaned up drawings (which does not have stains and other non-essential markings) and backgrounds are physically checked for mistakes again before they are scanned into the computer.



Digital colouring

The next stage which follows is the digital insertion of colour. The data from the exposure sheet, a tool for organising the animation process on paper is keyed into the computer. A member of the production team then initiates a final check on the digital inking and painting and the exposure sheet by way of rendering and playback at low resolution within the computer.

Compositing

Compositing is then carried out to create the final image by the combination of all the elements in a scene which include the characters, background and special effects.

Rendering/output

A technical process known as rendering will then combine all the data of each frame at high resolution. Finally the finished computer images are channelled into the desired output, being either video (NTSC or PAL system) or film.

3D Animation

Unlike 2D animation, in which the animator finalises the character design and “makes it move” through individual drawings, 3D animation is split into two steps, the first involves the creation of 3D characters and the second, the movement of the character.

Pre-production services

The customer typically provides pre-production materials. These include (i) a storyboard setting out the key sketches or scenes with accompanying explanatory notes, (ii) character/props model design setting out the appearance of the character/props and (iii) key background model design setting out the appearance of the background. We also have the ability to provide pre-production services, if required by the customer.

Initial discussion with customer

With the pre-production materials, our chief animation director in charge of the series or project will then discuss with the customer on the overall requirements of production. The chief animation director is responsible for and oversees the entire animation process and may be assisted by up to six animation directors, each responsible for a few episodes.

Reference drawings

In 3D animation, almost the entire process is controlled by the use of the computer and production software. Drawings and sometimes 3D sculptures may be used by scanning the drawings or digitising the sculptures for reference.

Character modelling

The character is created by a modeller within the computer as a wire frame which is displayed as a series of line-segments outlining its surface. Texture, which provides the outer appearance of the character, and “skeletons”, which act as points by which the character is moved, are also added at this stage.

Background modelling

Each background location is created within the computer by the background modeller. Textures, colours and lights are added to give the right atmosphere for each location.

Character animation

Once the character models and background location models are finalised, the animators take over to make the characters move by use of computer controls. There are various animation control methods that may be used. Typically, our animators move a character by moving the “skeletons”. As the character moves within the location model, it is important for the animator to consider the relationship between the character and the background. The 3D-generated characters and backgrounds, once created, can be re-used.

3D animation is generally less labour intensive primarily because the movement of the characters is carried out by moving the “skeletons” of the characters which are constructed within the computers. In 2D animation, manual drawings for each scene showing the character in different positions are required to show the movement of the characters. For example, in 3D animation, if a character moves his hand from the hip to touch his head, the 3D animator is only required to click on the hand and move the hand to his head. On the other hand, in 2D animation, a series of drawings is required with the first drawing depicting the hand at the hip, two or three drawings depicting the hand “in between” the hip and the head, and then a final drawing with the hand at the head.

Initial Renderings/checks

Unlike rendering in 2D animation, initial rendering of each character level can be performed first before compositing. A test shot in the animation is done at this stage, or at any stage at the option of the animator, and is usually a high quality rendering of a highly detailed model to view a single frame of the final product. Testing can be performed by using low resolution renderings, or by reviewing simple motion control to check the production for flaws in fluidity and reality of the motion sequences. The approved animation will be Rendered at high resolution. These initial rendering steps save time as the final production is usually a very large computer file which takes a long time to work with. In this way, checks are carried out during this stage of the production to ensure satisfactory quality of the production.

Special effects, compositing, rendering and output

Special effects such as snow, rain or water will be created for each scene. The next stage is compositing. A check is carried out at this stage using the computer to ensure the quality of the production.

Next, rendering is carried out in the same way as in 2D production before the output to film and/or video.

QUALITY CONTROL

We maintain a strict quality assurance and control system whereby we ensure that key stages of animation production are checked and approved by the animation director. A designated final checker and the animation director of the episode will also inspect each final production episode. In addition, all pilots, promotions and first episode of a series are subject to further checks by our Chief Operating Officer together with the animation director before delivery to customers.

R&D AND INTELLECTUAL PROPERTIES

We do not undertake any research and development activities.

We have taken the necessary steps such as registering our trademarks in PRC to protect the “COLORLAND” trademark and the “Colorland” device. The Group has registered the Internet domain names for future marketing purposes as set out in Appendix 5 to this Prospectus.

As we create characters for our own 3D animation productions, we will register such key characters to ensure that our intellectual property rights in respect of these characters are protected.

As at the date of this Prospectus, the Directors believe that the financial position of the Group will not be adversely affected should the rights to these characters be infringed.



USE OF SPECIALISED SOFTWARE AND HARDWARE BY OUR GROUP

In 1996, we started using Cambridge Animation Systems' Animo software to replace the labour-intensive traditional production method in 2D animation production.

We believe that we are among the first of the animation production studios in PRC to utilise 2D animation production software. Animo Software provides 2D computer scanning, digital painting, compositing, rendering and output capabilities. Animo Software also allows greater flexibility in, *inter alia*, making adjustments to the animation work and enabling colours to be changed without the need for re-painting. The installation of Animo Software allows us to deliver the output directly in video tape format.

In 1997, we gained the capability to deliver animation productions for network television and video tapes by way of digital Betacam tapes in NTSC and PAL systems. To penetrate new markets segments, we also installed a 35mm film recorder with Cineon software for digital film output for cinematic productions, which enabled us to successfully secure our first cinematic production contract to produce the animated film *Rudolph 2D*.

In 1998, we purchased our second 35mm film recorder and an additional Discovery disk recorder which converts computer data to video data. To cope with production demand, we increased our Animo software to over 40 licences.

We set up a 3D animation department in FY 1999 using Alias Wavefront's Maya 3D animation software for the purpose of venturing into 3D animation productions and recruited production personnel with relevant 3D experience and skills. In connection with this, we started a comprehensive program to train our existing 2D production staff to use Alias Wavefront's Maya animation software. We currently hold 38 licences for our use of this software.

We have also purchased various specialised software such as Digital Nature Tools, Ink Work and Animation Master for the purpose of creating special effects in our animation productions.

Licence fees are paid only once for the use of the animation software such as Animo and Maya 3D. As at 31 December 2000, we have spent approximately HK\$2.8 million on 3D licence fees. We also pay a yearly maintenance fee that includes maintenance, replacement of lost software and version upgrades. The maintenance fees for Animo and Maya 3D in FY 2000 are approximately HK\$0.2 million and HK\$0.3 million respectively. We do not have any exclusive relationship with the providers of these animation software and they are free to market their products to our competitors.

MARKETING

Our customer base comprises USA, UK, France, Spain, Germany and Australia. Our marketing efforts are led by Mr Sek Siu Ming. We attend international marketing shows such as MIPTV and MIPCOM in Cannes, France. These are annual events attended by program producers, animation production studios, television and cable networks and distributors. We also make frequent marketing trips to the USA, Europe and Australia to solicit new customers, maintain existing relationships and to follow up on referrals introduced by existing customers.

MAJOR CUSTOMERS

The customers accounting for 5% or more of our total turnover for each of the past three financial years include:-

%	FY 1998	FY 1999	FY 2000
Animation Productions ¹	15.9	70.3	28.3
Burbank	6.8	1.9	10.4
France Animation ²	—	—	21.8
Southern Star	14.8	—	—
Tundra Productions	48.4	—	18.2
Yoram Gross	9.6	26.1	18.8

Notes (corporate details of customers that account for 20% or more of our FY 2000 turnover):-

- 1 Animation Productions, incorporated in UK on 21 December 1987, handles animation productions and post-production work for other European producers.
- 2 France Animation, incorporated in France on 16 February 1981, is one of the well-established producers of animated programming in France and one of the leading animation companies in Europe. France Animation also works regularly with other European television broadcasters. France Animation is wholly owned by Wanadoo S.A., the Internet arm of French telephone operator, France Telecom S.A..

The Group does not perform project costing analysis and therefore it would not be meaningful to list the customers that account for 20% or more of the Group's operating profit. We are of the view that the proportionate contribution to operating profits by our customers approximates that of their contribution to turnover.

If any of our major customers reduces its need for our services, our financial condition and results of operations will be adversely affected.

None of our Directors or substantial shareholders has any interest, direct or indirect, in any of the above customers of the Group.

Credit Terms

In the past, we did not have a formalised credit policy. As at 31 December 2000, we do not have any bad debts. However going forward, in consultation with our auditors, we have adopted a general 30 days credit policy.

The credit terms granted to the customers depend, *inter alia*, on the background of our customers, our business relationship, contract values and our order-on-hand. The final invoice for an episode is usually issued once the retakes, if required, are sent to the customer in accordance with the production agreement. However, payments will be further delayed if additional retakes are required. This will result in higher debtors turnover periods as debtors are recognised upon invoice while our customers make payments only after the receipt of satisfactory productions.

The fluctuations in the debtors turnover period are accentuated by a large percentage billing of customers in the month of December. If we are to take this into account, the debtors turnover periods will reduce and be within our general credit policy of 30 days. For example in FY 2000, approximately 82% of total debtors were billed in December. Should this be excluded, the debtors turnover period would have been reduced from 36 to 9 days. For more details on our debtors turnover period, please refer to pages 47 to 50 of this Prospectus.

In the past six financial years, we had to make provisions for bad debts net of amounts written back for only three years. The net amounts were approximately HK\$8,000, HK\$382,000 and HK\$162,000 respectively. As at 31 December 2000, there were no provisions for bad debts made.



MAJOR SUPPLIERS

In FY 2000, salary-related cost accounted for approximately 93.8% of total direct costs.

The suppliers accounting for 5% or more of our total purchases for each of the past three financial years include:-

%	FY 1998	FY 1999	FY 2000
Cambridge Animation Systems	21.4	16.7	3.7
Chromacolour International Ltd	3.1	11.7	0.2
Conford Enterprises Co Ltd	2.6	6.9	1.8
Jadason Technology Ltd	—	4.8	69.5 ¹
Kodak (Far East) Ltd	47.2	5.3	1.4
Shenzhen Asia Computer Equipment Co Ltd	—	10.3	12.9
Shenzhen Lan Guang Paper Trading Co Ltd	5.6	22.8	5.2
Shenzhen Xin Si Wei Technology Co Ltd	—	8.6	—
Shenzhen Yang Da Electronics Co Ltd	8.2	—	—

Note:-

1 The increase in our purchases from Jadason Technology Ltd, a supplier of software licences for Maya 3D animation software, arises from our expansion of our 3D department which was set up in FY 1999.

In FY 2000, our top four suppliers accounted for 91.3% of our total purchases, compared to 61.5% in FY 1999 and 82.4% in FY 1998. Computer hardware and software of broadly equivalent functionality can be sourced from alternate suppliers on normal commercial terms. We will continue to source for new suppliers as required by our business. The key suppliers of software licences are Cambridge Animation Systems (for Animo systems) and Jadason Technology Ltd for Maya 3D animation software (in FY 2000). Major suppliers of computer hardware systems and electronics equipment are Kodak (Far East) Ltd for 35mm film recorders, Shenzhen Yang Da Electronics Co. Ltd for workstations and both Shenzhen Asia Computer and Shenzhen Xin Si Wei for computer components.

Raw materials comprise the paper for backgrounds, bond paper, digital Betacam video tapes, Betacam SP video tapes, paints for backgrounds and data tapes. We buy all these materials from our regular suppliers, such as Conford Enterprises Co Ltd, Chromacolour International Ltd and Shenzhen Lan Guang Paper Trading Co Ltd. The total expenses were HK\$0.82 million, which is approximately 1.3% of our turnover in FY 2000.

The Directors believe the Group is not dependent on any of the above suppliers.

None of our Directors or substantial shareholders has any interest, direct or indirect, in any of the above suppliers of the Group.

Credit Terms

Our suppliers normally provide us with 30 days of credit. For more details on our creditors' turnover period, please refer to pages 47 to 50 of this Prospectus.

COMPETITION

In general, animation service studios within Asia compete for business through emphasising its ability to handle complex projects, commitment to produce high quality work and as well as its price competitiveness. We believe that barriers to the animation industry are high and include, *inter alia*, the difficulty in recruiting and train animation talents, the need to establish a track record, maintaining business contacts and using the latest technological advancements to produce competitive and high quality animations.

We enjoy a good working relationship with our major customers. We believe that we have developed a significant track record in completing animation work for our customers according to their requirements. Further, producers prefer to work with animation studios that they are familiar with as the ability of the animation studios to deliver the work of the desired quality on schedule is crucial.

We are not aware of the existence of any industry ranking report that provides information on our market share of our 2D and 3D animation productions. Moreover, the Directors believe that there are no animation studios which are directly comparable to us in terms of (i) 2D and 3D capabilities, (ii) our use of technology, (iii) our focus on program targeted at television and video markets and (iv) our customer profile.

The Directors believe that Asian animation studios are more similar to us than the rest of the world in terms of services provided and cost structures. Animation studios in Asia include Wang Film Productions Ltd. (Taiwan), Hanho Heung-Up Co., Ltd. (South Korea), Akom Production Company (South Korea), Fil Cartoons, Inc. (Philippines), Philippines Animation Studio, Inc (Philippines), Hong Ying Animation Universe Co Ltd (Suzhou), Animation Services (Nanjing) Ltd, and SMEC Animation & Graphic Technology (Taipei) Co Ltd (Shanghai).

COMPETITIVE STRENGTHS

We believe our key competitive strengths lie in:-

(a) Established and Proven Management

Mr Sek Siu Ming founded Colorland Hong Kong in 1991 and has, since then, been managing various aspects of our business from production to marketing. He is currently our Group Chairman and Chief Executive Officer. He has had a long and extensive record of involvement in the media and animation industry since 1973. Mdm Luo Hui Ling, our Chief Operating Officer who also has been with the Group since 1991, has been responsible for all operational matters since 1997. Under the guidance of our management, the Group has been able to build up a track record. Our management has also been instrumental in our adoption of technology, such as Cambridge Animation Systems' Animo software, which improved the efficiency by eliminating manual painting of transparent plastic film and camerawork for each frame of the animation.

(b) Track Record and Established Customer Base

Over the past six financial years from FY 1995 to FY 2000, we have produced and delivered 2D animation content for television and video equivalent to approximately 550 half-hour episodes (an average of 91 episodes per year).

In 1997, we were selected to undertake the animation work for a full-length 76-minute 2D animated film, *Rudolph 2D*, which was delivered at end-of 1998. In 1999, we obtained the contract to produce animation work for the sequel, an 88-minute 3D full-length video *Rudolph 3D*.

Over the years we have built an established base of international customers in the large entertainment markets such as USA, UK, Germany, France, Spain and Australia. Projects from existing customers comprise 76% of our order book as at 31 December 2000. Many of our new customers have also been introduced by way of referrals from existing customers. As discussed earlier, our track record and established customer base is important as customers are less likely to appoint animation studios they have not worked with before.



(c) **Comprehensive Range of Services**

We provide a comprehensive range of animation services for film, television and the video market in terms of (i) our ability to undertake the entire range of animation work from storyboard to final output, (ii) our capabilities in both 2D and 3D animation and (iii) our ability to deliver our animation work in video (NTSC and PAL systems) and film. With the provision of all these services under one house, our customers do not have to co-ordinate with various animation studios for different aspects of animation work. Customers also have the benefit of knowing that a single party is accountable for the quality and delivery of the entire animation work.

(d) **Pool of Skilled Professionals**

We currently have 13 animation directors of which 12 have more than 15 years of experience each in the animation industry. We also have a team of 315 artists, animators and CGI production staff, as at 31 December 2000.

Most animators require about two to three years of related working experience before they can perform their work relatively independently. As such, it would not be easy for a new animation studio to build up a similar pool of skilled professionals over time. Moreover, as it is a common industry practice that artistic staff are remunerated based on the amount of work performed, an animation studio which does not have a steady stream of work will not be able to retain their staff.

Please refer to page 79 of this Prospectus for the experience profile of our production staff.

(e) **Adoption of Technology**

We have equipped our staff with related animated technology which has improved their efficiency and increased the range of services which are provided by us. We currently use 2D and 3D software from Cambridge Animations Limited (Animo) and Alias Wavefront (Maya) as well as a range of other specialised software such as Digital Nature Tools, Ink Work and Animation Master relating to specific areas of animation such as special effects. The Animo and Maya software are the same software that were used for recent 2D and 3D films such as Dreamworks SKG's *Prince of Egypt* (source: www.cam-ani.co.uk) and Columbia Tristar's *Stuart Little* (source: www.aliaswavefront.com) respectively. We believe we are the only animation studio in PRC producing both 2D and 3D animation with video and film output.

PROPERTIES AND FIXED ASSETS

The Group does not own any properties. We currently rent/lease the following properties from unrelated third parties:-

Description/ Location	Gross Area (m ²)	Tenure	Rental/Month	Lessor
Colorland HK 909 Austin Tower 22-26 Austin Avenue, Tsimshatsui, Kowloon Hong Kong	111	1 November 2000 – 31 October 2002	HK\$ 15,535	Longease Investment Ltd 1/F, 95 Austin Road Tsimshatsui, Kowloon Hong Kong
Colorland (Shenzhen) Levels 1-3 Yuan Lin Building 1 Donghu Yi Road Shenzhen PRC 518003	6,345	1 October 2000 – 31 December 2003 1 January 2004 – 31 December 2006 1 January 2007 – 31 December 2009 1 January 2010 – 31 December 2010	RMB 133,245 RMB 146,569.50 RMB 161,226.45 RMB 177,342.75	Shenzhen Landscape (Group) Co. Ltd Yuan Lin Building Donghu Yi Road Shenzhen PRC
Colorland (Shenzhen) Shanghai Office 504 Culture Multiple Building 396 Fanyu Road Shanghai PRC	87	9 May 2001 – 8 May 2002	RMB 4,600	Shanghai Culture Federation Culture Multiple Building 396 Fanyu Road Shanghai PRC



DIRECTORS, MANAGEMENT AND STAFF

BOARD OF DIRECTORS

The Board of Directors is entrusted with the responsibility for the overall management of the Group. The particulars of the Directors are set out below:-

Name	Age	Residential Address	Position
Sek Siu Ming	51	C20 Tian Yuan Ju Silver Lake, Shenzhen, PRC	Chairman & Chief Executive Officer
Luo Hui Ling	33	C20 Tian Yuan Ju Silver Lake, Shenzhen, PRC	Chief Operating Officer
Beni Prananto	42	Jln. Permata Hijau F4 RT0019/01 Grogol Utara Keb. Baru, Jakarta, Indonesia	Non-Executive Director
Lai Ka Tim	51	37 Greenleaf Rise Singapore 279388	Non-Executive Director
Jackson Lee @ Li Chik Sin	68	28 Jalan Sampurna Singapore 268285	Independent Director
Chan Wing Leong	44	1 Pesari Walk Singapore 487612	Independent Director

None of the Directors are related to each other except for Mr Sek Siu Ming and Mdm Luo Hui Ling who are spouses. Details of the relationships of our Directors and substantial shareholders are elaborated on page 57 of this Prospectus.

Information on the area of responsibility and working experience of the Directors of the Company is given below:-

Sek Siu Ming was appointed Chairman and Chief Executive Officer of the Group on 28 August 2000. He oversees the general management and marketing operations of the Group. Mr Sek is the founder of Colorland Hong Kong and had been the managing director of the company since 1991. He has more than 25 years of experience in the television and film industry and has held various management positions in major television and film companies in Hong Kong. From 1973 to FY 1978, he was executive producer and deputy programme manager of Television Broadcasts Ltd. For the next three years, he was sales director of Golden Communication Inc of the Golden Harvest Group. Between 1981 and 1985, he assumed the positions of executive director, controller of production facilities, publicity manager for Records Films Ltd, Asia Television Ltd and Shaw Brothers (HK) Ltd respectively. Prior to Colorland, he was the manager of Jade Animation Productions Ltd, a subsidiary of TVB Group, Hong Kong from 1985 to 1991 during which he set up and was appointed the General Manager of Jade Animation (Shenzhen) Company.

Mr Sek graduated from the University of East Asia, Macau with a diploma in Management.

Luo Hui Ling was appointed Chief Operating Officer of the Group on 28 August 2000. She oversees the day-to-day studio production operations of the Group. She is a founding member of Colorland Shenzhen and has been a senior executive of Colorland Shenzhen since 1991. Mdm Luo has more than 15 years experience in animation production. Prior to Colorland, Mdm Luo was an administrative, production then senior production supervisor at Jade Animation (Shenzhen) Company, a subsidiary of TVB Group, Hong Kong from 1986 to 1990.

Mdm Luo graduated from Cui Yuan High School in Shenzhen.

Beni Prananto was appointed a non-Executive Director of the Company on 18 September 2000. Mr Prananto is the Chief Executive Officer of the Prananto family's interests in Indonesia and Singapore since 1987. His family's Indonesian interests include major shareholdings in PT Rama Dinamika Raya, PT Fatrapolindo Nusa Industri, PT Tasikmadu Shipping, PT Continental Megah Express and PT Mitra Rajasa Tbk in which he has been the President Director since 1994. In Singapore, the family has substantial interests and owns the franchise for Tony Roma's in the Asia Pacific region and the franchise California Pizza Kitchen in Indonesia, Singapore, Malaysia and Hong Kong.

Mr Prananto has a Bachelor of Commerce degree from the Concordia University and a degree in Marketing from the Vanier College, Montreal, Canada.

Lai Ka Tim was appointed a non-Executive Director on 18 September 2000. From 1975 to 1988, he was the marketing director with Maritime Pte Ltd. In 1988, he became the managing director of K.T. Maritime Pte Ltd and since 1995, he has been a director of Tanker Pacific Offshore Terminal Pte Ltd. He has been in the maritime business since 1970, including shipbuilding, ship repair and commercial port operations.

Mr Lai graduated from the University of Singapore with a Bachelor of Science in Mathematics.

Jackson Lee @ Li Chik Sin was appointed an Independent Director of our Company on 19 April 2001. Mr Lee sits on the Boards of City e-Solutions Ltd, Metro Holdings Limited and Hong Fok Corporation Ltd. He was formerly an executive director with Metro Holdings Limited from 1983 until his retirement in 1995. Mr Lee was concurrently the chief executive officer of Transmarco Limited from 1983 to 1994. Prior to starting his career in business, Mr Lee was a partner with an international firm of public accountants.

He is a member of the Institute of Chartered Accountants in Australia.

Chan Wing Leong was appointed an Independent Director on 19 April 2001. He is Director and Chairman of EasyCall International Limited. Prior to this, Mr Chan was the Chairman of Pacific Internet Limited while employed as Chief Financial Officer of SembCorp Ltd. He spent five years at Pacific Internet Limited. The company was listed on NASDAQ in 1999. Mr Chan was previously managing director of Bankers Trust Company (Hong Kong) from 1993 to 1995. Prior to that, he was director of project finance in Schrodgers Asia Ltd from 1988 to 1993. He graduated from the University of Singapore with a Bachelor of Social Science (Economics) degree.

CORPORATE GOVERNANCE

We recognise the importance of corporate governance and the offering of high standards of accountability to our shareholders and will develop and implement a system of accounting controls and/or other financial and administrative practices and procedures to ensure that the Group practises good corporate governance.

Audit Committee

An Audit Committee has been formed and the Audit Committee will meet periodically to review the following:-

- (a) The audit plans, the system of internal accounting controls and the audit report in conjunction with the external auditors;
- (b) The assistance given by the Group's officers to the external auditors;
- (c) The financial statements of the Company and Group before the submission to the Board of Directors;
- (d) The Group's compliance with such functions and duties as may be required under the relevant statutes or the Listing Manual, and by such amendments made thereto from time to time;
- (e) Interested persons transactions, if any;



- (f) The remuneration packages of employees who are related to the Directors and substantial shareholders; and
- (g) The nomination of the external auditors for appointment or reappointment.

Apart from the duties listed above, the Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has, or is likely to have, a material impact on the Company's operating results and/or financial position.

The Audit Committee comprises Messrs Jackson Lee @ Li Chik Sin, Mr Chan Wing Leong and Mr Sek Siu Ming. The Chairman of the Audit Committee is Mr Jackson Lee @ Li Chik Sin. Messrs Lee and Chan are also the Independent Directors.

Compensation Committee

The compensation committee comprises Messrs Jackson Lee @ Li Chik Sin, Chan Wing Leong and Sek Siu Ming (the "Compensation Committee"). The Chairman of the Compensation Committee is Mr Jackson Lee @ Li Chik Sin. The primary functions of the Compensation Committee are to review and recommend the compensation packages of the executive Directors.

In the determination of the compensation package of Mr Sek Siu Ming or Mdm Luo Hui Ling, Mr Sek shall abstain from voting. In the event of a split decision between the other two members, the Chairman of the Compensation Committee will have a casting vote.

MANAGEMENT

The business and operations of the Group are currently managed by the Chief Executive Officer and the Chief Operating Officer. They are assisted by an experienced and qualified team of divisional managers responsible for the different functions of the Group. The particulars of the Executive Officers are set out below:-

Name	Age	Residential Address	Position
Xu Zhi-Jian	35	203 Yi Cun Xuan, Yi Cui Yun, Cui Zhu Road, Shenzhen, PRC	Chief Animation Director
Xue Qiu-Sheng	44	8B Block 7, Peng Wan Estate, Shatou Jiao, Shenzhen, PRC	Chief Animation Director
Zhang Mu-Lin	35	806, Block 7, 18 Cui Zhu Road, Shenzhen, PRC	IT Director
Fok Wai Ming	30	Flat 3316 Yat Man House Homantin Estate Kowloon, Hong Kong	Financial Controller

None of our executive officers has any family relationship with any other executive officer or with any of our Directors or substantial shareholders.

Information on the areas of responsibility and working experience of the Executive Officers of the Group is given below:-

Xu Zhi-Jian, Chief Animation Director, has more than ten years of experience as an animator and then animation director in Colorland since 1991 with additional responsibilities as production manager. One of two Chief Animation Directors in the Group, he supervises the animation project teams each of which is headed by an animation director. Prior to joining the Group, Mr Xu was a senior animator at Jade Animation (Shenzhen) Company from 1989 to 1991 and Shenzhen Pacific Rim Animation Company from 1988 to 1989. Mr Xu graduated with an art certificate from Hua Shan school in Shanghai.

Xue Qiu-Sheng, Chief Animation Director, is one of two Chief Animation Directors in the Group. He had been an animation director since 1991. Mr Xue possesses more than 20 years of experience. Between 1973 and 1986, he was an animator at the Shanghai Animation Film Studio. He had also been put in charge of the animation department. From 1986 to 1991, Mr Xue was a senior animator with Jade Animation (Shenzhen) Company. He holds an animation certificate from Shanghai Technical School.

Zhang Mu-Lin, IT Director, is responsible for all computer hardware/software/network systems. He joined the Group as a computer system engineer in 1996. Prior to this, he was the supervisor of the computer department at Shanghai Heng Guang Optical Limited Company from 1994 to 1996 and a computer engineer at Shanghai Computer Technology Services Company, Chang Jiang Computer Group Company from 1992 to 1994. Mr Zhang has a Masters degree in Science from Shanghai Fudan University, majoring in operations research and cybernetics.

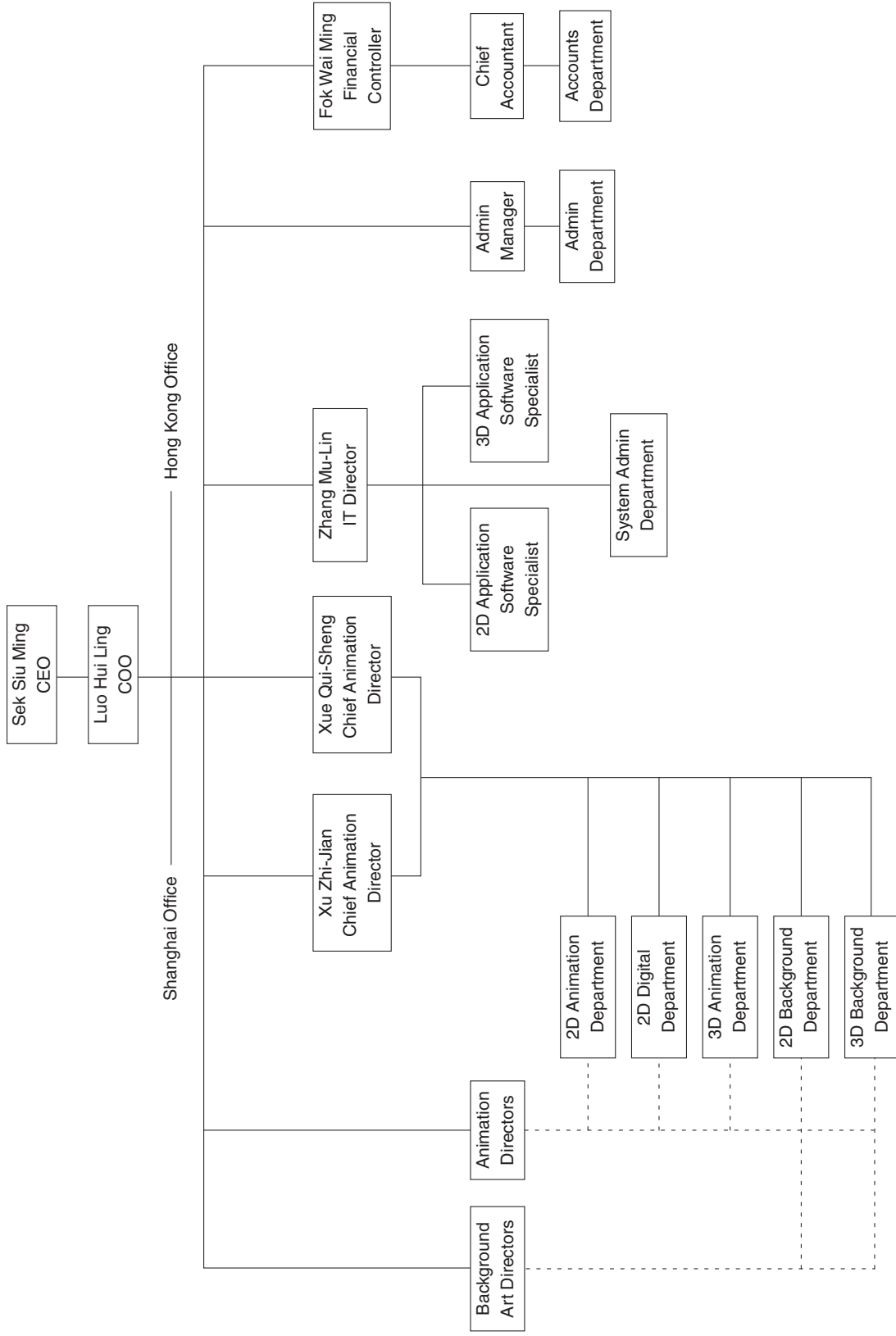
Fok Wai Ming, Financial Controller, joined us in October 2000. He graduated in 1994 from the Hong Kong Polytechnic University with a Bachelor of Arts degree in business studies. He is also an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Prior to joining us, he was working as an auditor for two international accounting firms, Moore Stephens and Nelson Wheeler, for five years.

None of the Executive Officers currently holds directorships in companies or have held any directorships in companies in the five years preceding the date of this Prospectus.

There has been no arrangement or understanding with major shareholders, customers and suppliers or others, pursuant to which any person referred to above was selected as a Director or Executive Officer.



MANAGEMENT ORGANISATION CHART



DIRECTORS' REMUNERATION

The remuneration of the Directors on an aggregate basis and in remuneration bands for FY 1999 and FY 2000 are as follows:-

(a) Aggregate Directors' Remuneration

HK\$'000	FY 1999	FY 2000
Executive Directors	2,251	3,132
Non-Executive Directors	—	—
Total	2,251	3,132

S\$'000	FY 1999	FY 2000
Executive Directors	492	693
Non-Executive Directors	—	—
Total	492	693

(b) Number of Directors in Each Remuneration Band

HK\$	FY 1999			FY 2000		
	Executive Directors	Non-Executive Directors	Total	Executive Directors	Non-Executive Directors	Total
2,000,000 and above	—	—	—	—	—	—
1,750,000 to 1,999,999	—	—	—	1	—	1
1,500,000 to 1,749,999	1	—	1	—	—	—
1,250,000 to 1,499,999	—	—	—	—	—	—
1,000,000 to 1,249,999	—	—	—	1	—	1
750,000 to 999,999	—	—	—	—	—	—
500,000 to 749,999	1	—	1	—	—	—
250,000 to 499,999	—	—	—	—	—	—
0 to 249,999	—	4	4	—	2	2
Total	2	4	6	2	2	4



S\$	FY 1999			FY 2000		
	Executive Directors	Non-Executive Directors	Total	Executive Directors	Non-Executive Directors	Total
450,000 and above	—	—	—	—	—	—
400,000 to 449,999	—	—	—	1	—	1
350,000 to 399,999	1	—	1	—	—	—
300,000 to 349,999	—	—	—	—	—	—
250,000 to 299,999	—	—	—	1	—	1
200,000 to 249,999	—	—	—	—	—	—
150,000 to 199,999	—	—	—	—	—	—
100,000 to 149,999	1	—	1	—	—	—
50,000 to 99,999	—	—	—	—	—	—
0 to 49,999	—	4	4	—	2	2
Total	2	4	6	2	2	4

SERVICE AGREEMENTS

The Company has not entered into any service agreement with its Directors and Executive Officers.

Mr Sek Siu Ming's current monthly salary is HK\$160,000 with an additional one-month bonus at the end of the financial year. His salary is reviewed annually by our Company's Compensation Committee.

Mdm Luo Hui Ling draws a monthly salary of HK\$69,700 and she is also entitled to an additional one-month bonus at the end of the financial year. Her performance related bonus is solely decided by our Company's Compensation Committee.

For more details on the functions of our Compensation Committee, please refer to page 74 on this Prospectus.

EMPLOYEES

We seek to achieve high quality service to customers and maintain our competitiveness in a knowledge-intensive environment through employing highly skilled production professionals. As at 31 December 2000, these professionals constitute 85% of our total staff strength. Our staff operates on a matrix pooling system, whereby they work on several projects at the same time, that allows us to maximise resource deployment across different projects. Our animation production staff are remunerated on the basis of output (number of drawings or screening time, rates varying depending on the complexity), subject to the Group being able to assign the agreed minimum work-value otherwise a minimum base salary will be payable.

As at 31 December 2000, the experience profile of our production staff (including 42 freelancers) is shown below:–

Production staff*	1-5 Years	5-10 Years	10-15 Years	> 15 Years	TOTAL
Animation Directors	—	—	1	12	13
Animators (incl. Freelancers)	18	28	24	23	93
Background Art Directors	—	—	—	2	2
Background Painters/Location Modellers	9	10	2	—	21
Assistant Animators	40	32	6	2	80
Digital Painters	23	29	—	—	52
Digital Compositors/Checkers	5	22	3	—	30
3D Modellers/Animators	24	15	1	1	41
Systems Administration	3	4	—	—	7
Total	122	140	37	40	339

As at 31 December 2000, we have 348 full-time employees, of which 326 were based in Shenzhen, 17 in Shanghai and 5 in Hong Kong. The number of full time employees is not subject to any seasonal fluctuations. Relations between management and our employees are good and there have been no industrial disputes between our employees and us in the last three years. None of our employees are members of any union.

Category	FY 1998	FY 1999	FY 2000
Executive Directors	2	2	2
Management *	15	17	21
Professional *	231	245	297
Admin & General	30	29	28
Total	278	293	348

* All employees in the professional category and several members of management are classified as production staff.

TRAINING AND DEVELOPMENT

We place emphasis on staff training to upgrade the skills and knowledge of our staff so as to provide a consistent level of quality services to our customers and position the Group to fully utilise new animation development and production software tools. Through a comprehensive training program, we aim to develop and promote best practices, improve efficiency and productivity, and help the staff achieve their potential both in their professional disciplines and in their personal development.

2D Animation

The Group provides full-time training classes for animators and new assistant animators on an ongoing basis. These are run by our own full-time supervisory staff. The duration for these classes is typically six months. Once groomed into assistant animators, recruits take up to an average of three years on the job before being promoted to animators.

3D Animators/3D Modellers

In October 2000, we started formal training for new staff without animation experience. The training program will take one year to complete. In the first six months, the program will cover only 2D animation drawing, timing and motion techniques. For the next six months, trainees will be taught to use Maya 3D animation software. A small group will concentrate on the use of Maya to build character, texturing and “skeletons” to different models. All of them will continue to learn 2D animation at the same time. Trainees will be recruited based on their fundamental drawing, illustration or sculpting skills.



Location Modellers

The training program is for a duration of six months. Trainees will be taught to use Maya to build models, texturing and lighting for different locations. Trainees will be recruited based on their fundamental painting and sculpting skills.

Besides in-house training, relevant upgrading courses are also carried out by our key software and hardware vendors where necessary to keep our staff abreast of the latest technology.

The Group's expenditure on external training and development for the past three financial years has been insignificant.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICT OF INTERESTS

Mr Sim Wong Hoo, a deemed substantial shareholder of our Company, has through his investee companies invested or may from time to time invest, either directly or indirectly, in companies or businesses that may, or in future may, carry on a similar trade as the Company and its subsidiaries, or in future have business dealings with the Company and its subsidiaries. Mr Sim Wong Hoo is not involved in the management of the Company.

Save as disclosed, none of our Directors, substantial shareholders or Executive Officers has any interest, direct or indirect:-

- (a) In any transactions to which the Company or its subsidiaries was or is to be a party.
- (b) In any business carrying on a similar trade as the Company and its subsidiaries, whether quoted or not quoted on a recognised stock exchange.
- (c) In any enterprise or company that is the Group's customers or suppliers of goods or services.

Guidelines for future interested persons transactions

Any future transaction with interested persons shall comply with the requirements of the SGX-ST Listing Manual. As required by Appendix 5 Clause 9(5) of the SGX-ST Listing Manual, the Company adopted a set of new Bye-laws which requires a Director to abstain from voting in any contract or arrangement in which he has a personal material interest. The Directors are not aware of the existence of any interested persons transaction.

The Audit Committee will review all future interested persons transactions periodically to ensure that they are carried out on normal commercial terms and are not prejudicial to the interests of the Company's shareholders. Ratification of all the records for all the interested persons transactions to ensure that they comply with the internal control procedures will be carried out by the Audit Committee during its periodic review. The review includes the examination of the nature of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee. We will endeavour to comply with the principles and best practices set out in the Best Practices Guide, in a manner which best suits its particular circumstances. If a member of the Audit Committee has an interest in a transaction, he will abstain from participating in the review and approval process in relation to that transaction.

The Board of Directors will also ensure that all disclosure requirements on interested persons transactions, including those required by prevailing legislation, the SGX-ST Listing Manual and accounting standards, are complied with. In addition, such transactions will also be subject to shareholders' approval if necessary under the SGX-ST Listing Manual.



DIRECTORS' REPORT

25 May 2001

The Shareholders
Colorland Animation Ltd.
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Dear Sirs

This report has been prepared for inclusion in the prospectus to be dated 25 May 2001 (the "Prospectus") in connection with the invitation in respect of 20,000,000 new ordinary shares of HK\$0.40 each (the "Shares") in the capital of Colorland Animation Ltd. (the "Company").

On behalf of the Directors of the Company, I report that, having made due inquiry in relation to the period between 31 December 2000, the date to which the last audited consolidated accounts of the Company and its subsidiaries were made up, and the date hereof:-

- (a) the business of the Company and each of its subsidiaries has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last Annual General Meeting of the Company which adversely affect the trading or the value of the assets of the Company or any of its subsidiaries;
- (c) the current assets of the Company and its subsidiaries appear in their books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees given by the Company or its subsidiaries; and
- (e) save as disclosed on pages 34, 53 and 54 of the Prospectus, there has been no change in the published reserves or any unusual factors affecting the profits of the Company and its subsidiaries since 31 December 2000, the date to which the last audited accounts of the Company and its subsidiaries were made up.

Yours faithfully
for and on behalf of
the Board of Directors

Sek Siu Ming
Group Chairman
Colorland Animation Ltd.

ACCOUNTANTS' REPORT

25th May, 2001

The Board of Directors
Colorland Animation Ltd.
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Dear Sirs,

A. INTRODUCTION

This report has been prepared for inclusion in the prospectus dated 25th May, 2001 (the "Prospectus") in connection with the invitation (the "Invitation") in respect of 20,000,000 ordinary shares of HK\$0.40 each (the "Invitation Shares") in the capital of Colorland Animation Ltd. (the "Company").

The Invitation Shares comprise 20,000,000 new shares and will be offered to the public as follows:-

- (a) 1,500,000 placement shares (the "Offer Shares") at S\$0.20, payable in cash upon application, for each Offer Share by way of public offer;
- (b) 17,000,000 placement shares (the "Placement Shares") at S\$0.20, payable in cash upon application, for each Placement Share by way of application forms; and
- (c) 1,500,000 placement shares (the "Placement Shares") at S\$0.20, payable in cash upon application, for each Placement Share by way of application through the Internet IPO Website.

B. THE COMPANY

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda on 10th August, 2000 as an exempted company with limited liability in the name of Colorland Animation Ltd. At the date of incorporation, the authorised share capital of the Company was HK\$100,000 divided into 100,000 ordinary shares of HK\$1.00 each. On 23rd August, 2000, 100,000 ordinary shares of HK\$1.00 each were issued nil paid as subscriber shares to Sek Siu Ming.

The Company is an investment holding company. It was formed to take over the existing companies of the Group (as defined below), which are engaged in the production and sale of animated films.

Pursuant to a restructuring exercise, on 6th September, 2000, the Company acquired the entire issued share capital of Colorland Animation Productions Limited ("Colorland Hong Kong"), the then holding company of the subsidiary company, from the shareholders of Colorland Hong Kong, to become the Group's holding company. The purchase consideration was based on the consolidated net tangible asset value, of approximately HK\$26,577,266, of Colorland Animation Productions Limited and its subsidiary company as at 31st August, 2000. The purchase consideration was satisfied by the allotment and issue of 17,900,000 ordinary shares of HK\$1.00 each at par, credited as fully paid upon issue, and the crediting as fully paid of 100,000 ordinary shares of HK\$1.00 each at par which were allotted and issued nil paid to Sek Siu Ming on 23rd August, 2000.



B. THE COMPANY (*cont'd*)

The particulars of the subsidiary companies owned by the Company upon completion of the restructuring exercise are set out in Section C below.

Pursuant to resolutions passed on 6th September, 2000 by Mr Sek Siu Ming (the then sole shareholder of the Company), Mr Sek approved, *inter alia*, the following:–

- (a) an increase in the authorised share capital of the Company from HK\$100,000 to HK\$50,000,000 by the creation of an additional 49,900,000 ordinary shares of HK\$1.00 each;
- (b) the allotment and issue of 17,900,000 new ordinary shares of HK\$1.00 each in the Company to the shareholders of Colorland Animation Productions Limited pursuant to the restructuring exercise, details of which are set out below; and
- (c) the crediting as fully paid at par of the 100,000 ordinary shares of HK\$1.00 each in the share capital of the Company issued as nil paid on 23rd August, 2000 to Sek Siu Ming.

Pursuant to resolutions passed on 6th September, 2000 by the Directors of the Company, the Directors approved, *inter alia*, the following:–

- (a) the allotment and issue of 2,022,472 new ordinary shares of HK\$1.00 each to Spectra Technologies Limited pursuant to a Subscription Agreement dated 6th September, 2000;
- (b) the allotment and issue of 1,011,236 new ordinary shares of HK\$1.00 each to Arthur Tan Keng Hock pursuant to a Subscription Agreement dated 6th September, 2000; and
- (c) the allotment and issue of 1,011,236 new ordinary shares of HK\$1.00 each to Sim Seng Kiang pursuant to a Subscription Agreement dated 6th September, 2000.

Pursuant to resolutions passed on 12th September, 2000 by the Directors of the Company, the Directors approved, *inter alia*, the following:–

- (a) the allotment and issue of 1,211,815 new ordinary shares of HK\$1.00 each to Cruxible Pte Ltd, pursuant to a Subscription Agreement dated 15th September, 2000; and
- (b) the allotment and issue of 605,908 new ordinary shares of HK\$1.00 each to CTI II Limited, pursuant to a Subscription Agreement dated 15th September, 2000.

Pursuant to a resolution passed on 19th April, 2001 by the Directors of the Company, the Directors approved, *inter alia*:–

- (a) the allotment and issue of 1,249,294 new ordinary shares of HK\$1.00 each to Luo Hui Ling, pursuant to a Subscription Agreement dated 6th September, 2000.

On 12th May, 2001 a special general meeting was held whereby the shareholders of the Company approved, *inter alia*, the following:–

- (a) an increase in the authorised share capital of the Company from HK\$50,000,000 to HK\$80,000,000 by the creation of an additional 30,000,000 ordinary shares of HK\$1.00 each;
- (b) the subdivision of every two ordinary shares of HK\$1.00 each in the authorised and issued and paid-up capital of the Company into 5 ordinary shares of HK\$0.40 each;
- (c) the bonus issue of 0.274293 new ordinary shares of HK\$0.40 each for every ordinary share of HK\$0.40 each, by way of capitalising the share premium of the Company;
- (d) the issue of 20,000,000 New Shares of HK\$0.40 each which are the subject of this Invitation and which, when fully paid, allotted and issued, will rank *pari passu* in all respects with the existing Shares of the Company;

B. THE COMPANY (cont'd)

- (e) the adoption of new Bye-laws of the Company; and
- (f) the authorisation to the Directors, pursuant to Section 161 of the Act, to issue, in addition to the New Shares, such further shares at any time to such persons, upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares to be issued pursuant to such authorisation shall not exceed 50% of the issued share capital of the Company for the time being, and provided further that the aggregate number of Shares to be issued other than on a pro-rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company for the time being. Such a general mandate shall only remain in force until:–
 - (i) the conclusion of the next annual general meeting of the Company following the passing of the resolution by the shareholders of the Company at which time it shall lapse, unless by ordinary resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or
 - (ii) the shareholders of the Company by an ordinary resolution in a general meeting revoke or vary such general mandate, whichever is the earlier.

At the date of this report, the issued and paid-up share capital of the Company is HK\$32,000,000 comprising 80,000,000 ordinary shares of HK\$0.40 each. Upon listing, the issued and paid-up share capital of the Company will be HK\$40,000,000 comprising 100,000,000 ordinary shares of HK\$0.40 each.

C. THE PROFORMA GROUP

At the date of this report, the Company had the following subsidiary companies (referred to collectively with the Company as the “Group” or the “Proforma Group”):–

Name of company	Date and country of incorporation/ establishment	Paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Held by the Company</i>				
Colorland Animation Productions Limited (“Colorland Hong Kong”)	11th December, 1990 Hong Kong	HK\$3,250,000	100%	Sale of animated films
<i>Held by Colorland Animation Productions Limited</i>				
Colorland Animation Productions (Shenzhen) Limited (“Colorland (Shenzhen)”)	16th May, 1991 People’s Republic of China	US\$500,000	100%	Production of animated films

Neither of the above subsidiary companies is listed on any stock exchange.



D. BASIS OF PREPARATION OF PROFORMA FINANCIAL INFORMATION

The proforma financial information of the Group presents the historical information as if the Group as described above was in existence at the beginning of the period covered in this report.

The proforma financial information set out in this report is expressed in Hong Kong dollars (“HK\$”) and presents the Proforma Statement of Group Results for each of the six financial years ended 31st December, 2000, the Summarised Proforma Balance Sheets of the Group as at the end of each of the six financial years ended 31st December, 2000, and the Proforma Statement of Net Assets as at 31st December, 2000 of the Group and of the Company.

The proforma financial information has been prepared on the assumption that the current Group structure, as outlined above, had been in existence throughout the periods covered by the report, or since the respective date of establishment/incorporation of the companies in the Group, if later. The proforma financial information is based on the audited financial statements of Colorland Hong Kong and Colorland (Shenzhen) and has been prepared on the basis of the accounting policies set out in Section I of this report.

All material intra-Group transactions and balances have been eliminated in the preparation of the proforma financial information.

The objective of the proforma financial information of the Group is to show what the historical information might have been had the Group existed at an earlier date. However, the proforma financial information of the Group is not necessarily indicative of the results of the operations or the related effects on the financial position that would have been attained had the above-mentioned Group actually existed earlier.

The financial statements of Colorland Hong Kong for the six financial years ended 31st December, 2000 were prepared under applicable accounting regulations in Hong Kong and were audited by Moore Stephens Hong Kong. The financial statements of Colorland (Shenzhen) for the six financial years ended 31st December, 2000 were audited by Shenzhen Minhe Certified Public Accountants in the PRC for PRC tax reporting purposes.

For the purpose of this report, Moore Stephens Hong Kong and Moore Stephens Singapore have performed an independent audit of the consolidated financial statements of Colorland Animation Ltd. for the period ended 31st December, 2000. Moore Stephens Hong Kong has performed an independent audit of the consolidated financial statements of Colorland Hong Kong and its subsidiary company, Colorland (Shenzhen), for each of five financial years ended 31st December, 1999. The auditors’ report for each of the financial periods covered by this report were unqualified.

E. PROFORMA STATEMENT OF GROUP RESULTS

The Proforma Statement of Group Results for each of the six years ended 31st December, 2000, prepared on the basis set out in Section D above, are as follows:—

		Audited					
		Year ended 31st December					
		1995	1996	1997	1998	1999	2000
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	J.1	35,484	43,267	48,558	54,334	44,210	62,445
Direct costs		(19,314)	(20,285)	(20,955)	(20,833)	(21,773)	(25,448)
Contribution margin		16,170	22,982	27,603	33,501	22,437	36,997
Bank interest income		23	241	336	195	70	228
Investment income		920	1,132	1,666	643	498	394
Other income		73	61	567	57	17	199
Total other revenue		1,016	1,434	2,569	895	585	821
Distribution costs	J.2	(502)	(207)	(70)	(94)	(98)	(94)
Administrative expenses		(6,230)	(9,235)	(8,515)	(10,194)	(8,840)	(10,285)
Depreciation		(431)	(1,063)	(1,937)	(3,012)	(3,178)	(3,774)
Amortisation		(81)	(487)	(1,627)	(2,687)	(3,511)	(4,815)
Exchange gain/(loss)		922	(34)	(1,441)	(473)	(289)	(1,696)
Profit from operating activities		10,864	13,390	16,582	17,936	7,106	17,154
Finance costs		(294)	(77)	—	—	—	—
Profit before taxation	J.3	10,570	13,313	16,582	17,936	7,106	17,154
Taxation	J.4	—	16	(1,197)	(1,763)	(739)	(1,904)
Net profit attributable to shareholders of the Company		10,570	13,329	15,385	16,173	6,367	15,250
Dividends		—	3,000	11,000	16,000	2,000	15,000
Earnings per share basic (HK cents)#		13.2	16.7	19.2	20.2	8.0	19.1

The proforma earnings per share is computed based on the pre-invitation number of shares of 80,000,000.



F. STATEMENT OF ADJUSTMENTS

The proforma financial information set out in this report has been consolidated based on the audited financial statements of the companies in the proforma Group as if the Group was already in existence on 1st January, 1995 based on the restructuring exercise set out in Section B.

The Group, except for the Company, was already in existence at 1st January, 1995. The Company's principal activity is to act as the holding company of the other companies in the proforma Group. There is no difference between the operating profit for each of the six financial years ended 31st December, 2000 shown in the audited consolidated financial statements of the Company, Colorland Hong Kong and its subsidiary company, Colorland (Shenzhen), and the operating profit for the same periods as set out in Section E "Proforma Statement of Group Results".

G. SUMMARISED PROFORMA BALANCE SHEETS OF THE GROUP

The Summarised Proforma Balance Sheets of the Group, as at the end of each of the six financial years ended 31st December, 2000, prepared on the basis set out in Section D above, are as follows:-

	Audited					
	As at 31st December					
	1995	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	3,633	6,843	10,888	10,904	8,316	9,990
Long term investments	6,547	8,743	11,817	12,642	19,699	26,299
Current assets						
Inventories	2,491	1,854	1,531	1,074	596	615
Debtors, deposits, prepayments and other receivables	10,272	8,975	11,194	6,124	8,678	11,081
Due from a director*	94	108	—	—	—	—
Cash and bank balances	2,319	4,496	11,171	2,456	5,123	12,146
	15,176	15,433	23,896	9,654	14,397	23,842
Current liabilities						
Creditors and accrued charges	7,198	6,793	19,390	5,663	9,107	7,321
Due to ultimate holding company (See Section J, note 3)	1,500	—	—	—	—	—
Due to related company*	4,436	1,935	—	—	—	—
Dividend payable	—	—	—	—	2,000	—
Taxation	260	—	535	688	89	1,210
	(13,394)	(8,728)	(19,925)	(6,351)	(11,196)	(8,531)
Net current assets	1,782	6,705	3,971	3,303	3,201	15,311
	11,962	22,291	26,676	26,849	31,216	51,600
Represented by:-						
Proforma shareholders' equity	11,962	22,291	26,676	26,849	31,216	51,600

* Unsecured and interest free.

G. SUMMARISED PROFORMA BALANCE SHEETS OF THE GROUP (cont'd)

The movements in the proforma shareholders' equity of the Group for each of the six financial years ended 31st December, 2000, prepared on the basis set out in Section D above, are as follows:-

	Audited					
	As at 31st December					
	1995	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	1,392	11,962	22,291	26,676	26,849	31,216
Net profit attributable to shareholders of the Company	10,570	13,329	15,385	16,173	6,367	15,250
Issue of shares	—	—	—	—	—	20,134
Dividends	—	(3,000)	(11,000)	(16,000)	(2,000)	(15,000)
At the end of year	11,962	22,291	26,676	26,849	31,216	51,600
NTA per share (cents) [#]	15.0	27.9	33.3	33.6	39.0	64.5

The proforma NTA per share is computed based on the pre-invitation number of shares of 80,000,000.

H. PROFORMA STATEMENT OF NET ASSETS

The following Proforma Statement of Net Assets sets out the net assets of the Group and of the Company as at 31st December, 2000:-

	Notes	Group	Company
		HK\$'000	HK\$'000
Property, plant and equipment	K.1	9,990	—
Subsidiary companies	K.2	—	40,441
Long term investments	K.3	26,299	—
Current assets			
Inventories	K.4	615	—
Debtors, deposits, prepayments and other receivables	K.5	11,081	—
Cash and bank balances		12,146	6,324
		23,842	6,324
Current liabilities			
Creditors and accrued charges	K.6	7,321	—
Taxation		1,210	—
		(8,531)	—
Net current assets		15,311	—
		51,600	46,765
Represented by:-			
Proforma shareholders' equity		51,600	46,765



I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, which have been consistently applied in preparing the proforma financial information set out in this report, are as follows:-

1. Basis of accounting

The financial statements of the Company and of the Group are prepared under the historical cost convention.

The financial statements are prepared in accordance with International Accounting Standards.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies made up to the end of the respective financial periods. The results of subsidiary companies acquired or disposed of during a period are included for or excluded after the respective dates of acquisition or disposal, as applicable. Intercompany transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

3. Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:-

- (a) on the sale of animated films subject to short term contracts, when delivery is made to customers;
- (b) on the sale of animated films subject to long term contracts, based on the stage of completion basis;
- (c) investment income and interest income on loan receivable, when the right to receive payment is established; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. Long term investments

Long term investments consist of direct investments and investments via loans (with put options) in animated series and animated films.

(a) Direct investments

Investments in animated series and animated films, are brought to account at cost or at directors' valuation, if less than cost, less any accumulated amortisation. The carrying amount of investments is reviewed periodically by directors to ensure it is not in excess of the recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the investments.

Investments are amortised on a straight-line basis over the period during which the expected net cash flows will be received. Amortisation commences on the completion of the animated series or film and after distribution thereof has begun. For investments currently held the amortisation period has been taken as five years.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Investments via loans (with put options)

Certain investments are made via loans (with put options) whereby long term advances are made to third parties which are in turn invested in animated series and animated films and earn income which varies according to the return on the investments. The loans are subject to put options, whereby the company may be required to take a direct interest in the underlying investments in the animated series or films in settlement of the loans. Provisions are made against these investments, using the straight line method, in order to write off their cost, less their estimated residual values, over the respective put option periods.

The carrying values of the investments are reviewed periodically to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is determined by reference to the present value of the expected net future cash flows that will be received over the life of the loans together with any residual value at the end of the put option periods. The discount rate used in the calculation of net present value is the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the investments.

5. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

6. Property, plant and equipment

Property, plant and equipment are stated at cost, less provisions for depreciation. Details are set out in note K.1. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. When an asset is sold, its cost and accumulated depreciation are removed from the accounts and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the profit and loss account.

Depreciation is provided on the straight-line method, based on the estimated economic useful lives of the individual assets, at the following rates per annum:-

Computers	20%
Furniture and fixtures	10%-20%
Leasehold improvements	Over the terms of the leases
Motor vehicles	20%
Office equipment	10%-20%
Plant and machinery	10%

7. Subsidiary companies

A subsidiary company is a company in which the Company, directly or indirectly, controls more than half of its voting power or controls the composition of its board of directors.

Interests in subsidiary companies are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.



I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

8. Inventories

Inventories, which comprise raw materials and short term work-in-progress, are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value is calculated as the actual or estimated selling price less all further costs of production and the related costs of marketing, selling and distribution.

9. Taxation

PRC income tax is provided on income at rates applicable to enterprises in the PRC on the income for financial reporting purposes, and is adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

Hong Kong income tax is provided at rates applicable to companies in Hong Kong on the assessable income.

Provision is made under the liability method at the current rate for taxation deferred by timing differences between profits as stated in the financial statements and as computed for taxation purposes, except to the extent that timing differences result in a deferred tax asset. In this case, no provision is made.

10. Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates ruling on the dates of the individual transactions. Monetary assets and liabilities denominated in other currencies are translated at the approximate rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the profit and loss account.

On consolidation, monetary assets and liabilities of the subsidiary are translated at the approximate rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the approximate rates ruling on the dates of transactions. Profit and loss items are translated at the average rate of exchange during the period. All exchange differences arising on translation are dealt with in the profit and loss account.

11. Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and common significant influence. Related parties may be individuals or corporate entities.

J. NOTES TO PROFORMA STATEMENT OF GROUP RESULTS

1. Turnover

Turnover represents amounts received and receivable in respect of animated films sold during the year, and after elimination of all significant intra-Group transactions. For the year ended 31st December, 2000 the revenue recognised for short term contracts was HK\$52,736,958 and for long term contracts, where the stage of completion is certified by the customer, revenue recognised was HK\$9,707,764. The direct costs incurred on the long term contract and the recognised gross profit were HK\$1,623,243 and HK\$8,084,521, respectively.

J. NOTES TO PROFORMA STATEMENT OF GROUP RESULTS (cont'd)

2. Distribution costs

Distribution costs represent freight, courier and transportation costs.

3. Profit before taxation

Profit before tax is arrived at after charging/(crediting):-

	Year ended 31st December					
	1995	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	78	148	112	139	137	210
Amortisation of long term investments	81	487	1,627	2,687	3,511	4,815
Depreciation of fixed assets	431	1,063	1,937	3,012	3,178	3,774
Operating lease rentals in respect of land and buildings	1,771	2,316	2,340	2,510	2,109	942
Directors' remuneration	455	1,300	1,300	1,420	2,251	3,132
Staff costs (excluding directors' remuneration)	14,272	17,872	20,693	20,483	21,434	24,154
Interest on loan from ultimate holding company*	294	77	—	—	—	—
Provision for doubtful debts	8	925	—	240	162	—
Write back of provision for doubtful debts	—	—	(544)	—	(240)	—
Loss on disposal of fixed assets	8	29	227	45	150	166

* Interest on the loan was charged at a rate of 11.5% – 12% per annum during the period.

4. Taxation

Hong Kong profits tax has been calculated on the assessable income of the company at a flat rate of 16.5% for the year ended 31st December, 1997, and 16% for the years ended 31st December, 1998, 31st December, 1999, and 31st December, 2000. Hong Kong profits tax was not provided for in the years ended 31st December, 1995 and 31st December, 1996 as the Group did not generate any assessable income during these two years.

Colorland (Shenzhen) is exempted from income tax for the first two profitable years of operations. Accumulated tax losses carried forward by Colorland (Shenzhen), not exceeding a period of five years, can be applied to offset against subsequent financial years' profits to arrive at the assessable profits for income tax computation purposes. Colorland (Shenzhen) was exempted from income tax from 1st January, 1995 to 31st December, 1996 being its first two profitable financial years. Colorland (Shenzhen) was also entitled to a 50% relief from income tax for the following three years from 1st January, 1997 to 31st December, 1999, resulting in a reduced tax rate of 7.5%. For the year ended 31st December, 2000, income tax was payable at a rate of 15% of the assessable profits. However, if sales of more than 70% relate to export sales, a 5% refund of the assessable profits is receivable in the subsequent year, subject to approval from the China tax authorities. As all of the sales in Colorland (Shenzhen) are made to Colorland Hong Kong, the subsidiary is entitled to this refund. Accordingly, an income tax provision of 10% has been made on the assessable profits of Colorland (Shenzhen).

No deferred taxation has been provided during the financial periods concerned as, in the opinion of the directors, the timing differences are immaterial.



K. NOTES TO PROFORMA STATEMENT OF NET ASSETS

1. Property, plant and equipment

	Leasehold improvements	Furniture and fixtures	Plant and machinery	Office equipment	Computers	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group							
Cost							
1st January, 2000	593	46	2,218	946	13,907	487	18,197
Additions	106	12	—	35	5,130	331	5,614
Disposals	—	—	(596)	(113)	(46)	—	(755)
31st December, 2000	699	58	1,622	868	18,991	818	23,056
Depreciation							
1st January, 2000	375	28	1,401	645	7,116	316	9,881
Charge for the year	117	5	138	117	3,275	122	3,774
Disposals	—	—	(441)	(107)	(41)	—	(589)
31st December, 2000	492	33	1,098	655	10,350	438	13,066
Net book value							
31st December, 2000	207	25	524	213	8,641	380	9,990

2. Subsidiary companies

	Company HK\$'000
Unquoted shares, at cost	26,577
Due from subsidiary — non-trade	13,864
	40,441

The amount due from a subsidiary company is unsecured, interest free and there are no fixed terms for repayment.

The details of the subsidiary companies as at the date of this report are set out in Section C.

3. Long term investments

Group and Company

	HK\$'000
Direct investments (a)	23,301
Investments via loans (with put options) (b)	2,998
	26,299

K. NOTES TO PROFORMA STATEMENT OF NET ASSETS (cont'd)

(a) Direct investments

	Investment in finished mini series HK\$'000	Investments in unfinished mini series HK\$'000	Total HK\$'000
Cost			
1st January, 2000	21,021	—	21,021
Additions	10,267	1,148	11,415
31st December, 2000	31,288	1,148	32,436
Amortisation			
1st January, 2000	5,350	—	5,350
Charge for the year	3,106	—	3,106
Additional amortisation to reduce carrying amount to estimated recoverable amount	679	—	679
31st December, 2000	9,135	—	9,135
Net book value			
31st December, 2000	22,153	1,148	23,301

The investments in finished mini series were made pursuant to production agreements entered into by the company with the producers of the series in 1995, 1996, 1997, 1998 and 1999.

The investments in unfinished mini series were made pursuant to the production agreement entered into by the company with the producers of the series in 2000.

(b) Investments via loans (with put options)

	Loan receivable with put option expiring on 15.9.2012 HK\$'000	Loans receivable with put options expiring on 31.12.2016 HK\$'000	Total HK\$'000
Cost			
1st January, 2000 and 31st December, 2000	4,194	2,592	6,786
Amortisation			
1st January, 2000	2,016	742	2,758
Charge for the year	171	109	280
Additional amortisation to reduce carrying amounts to estimated recoverable amounts	402	348	750
31st December, 2000	2,589	1,199	3,788
Net book value			
31st December, 2000	1,605	1,393	2,998



K. NOTES TO PROFORMA STATEMENT OF NET ASSETS (cont'd)

Investments via loans (with put options) represent loans made to third parties which are in turn invested in animated series and animated films. These investments via loans earn income, which varies according to the return on the distribution of the animated series and films.

The company granted an irrevocable put option ("option") in 1992 in respect of the loan brought forward for a consideration of A\$10. Two more irrevocable put options ("options") for a consideration of A\$10 each were granted to the existing borrower and another borrower respectively in respect of two loans provided by the company in 1998.

The option granted in 1992 entitles the borrower to procure that the company acquires 64.25% of the borrower's interest in a mini series for a consideration of the lower of the outstanding principal and interest and 64.25% of the fair market value of the mini series concerned at the date of exercising the option, as full and final settlement of the loan. The fair market value is to be agreed between the two parties, or failing agreement, based on the discounted present value of the sum of the succeeding five years projected earnings. The directors believe that the fair market value of 64.25% of the mini series is in excess of the carrying amount, being the cost less provision, of the loan. The option is exercisable between 1st January, 1995 and 14th September, 2012. If not exercised, the total outstanding loan is to be repaid on 15th September, 2012. The mini series subject to this option has been in distribution since 1994 and continues to generate income.

The options granted in 1998 entitle the borrowers to procure that the company acquires 42.26% of each of the borrowers' interests in another mini series for a consideration of the lower of the outstanding principal and interest and 42.26% of the fair market value of the mini series concerned at the date of exercising the options, as full and final settlement of the loans. The fair market value is to be agreed between the two parties, or failing agreement, based on the discounted present value of the sum of the succeeding five years projected earnings. The directors believe that the fair market value of 42.26% of the mini series is in excess of the carrying amount, being the cost less provisions, of each loan. The options are exercisable between 1st January, 1999 and 31st December, 2016. If not exercised, the total outstanding loans are to be repaid on 31st December, 2016. The mini series subject to this option has been in distribution since 1998 and continues to generate income.

4. Inventories

	Group
	HK\$'000
Raw materials — at cost	90
Work in progress — at cost	525
	<hr/>
	615
	<hr/> <hr/>

K. NOTES TO PROFORMA STATEMENT OF NET ASSETS (cont'd)

5. Deposits, prepayments and other receivables

	Group HK\$'000
Trade debtors	6,204
Deposits	622
Prepayments	3,353
Other receivables	902
	<hr/>
	11,081
	<hr/> <hr/>

6. Creditors and accrued charges

	Group HK\$'000
Trade creditors	1,032
Customers' deposits received	
— short term contracts	1,365
— long term contracts	1,799
Accrued operating expenses	2,956
Other creditors	169
	<hr/>
	7,321
	<hr/> <hr/>

7. Operating lease commitments

The Group leases certain properties under lease agreements. At 31st December, 2000, total commitments for lease payments for all leases were as follows:–

	Group HK\$'000
Within one year	23
In the second to fifth years, inclusive	186
Over 5 years	371
	<hr/>
	580
	<hr/> <hr/>

The Company does not have any operating lease commitments.

8. Capital commitments

The Group and the Company did not have any significant capital commitments as at 31st December, 2000.

9. Fair values of financial instruments

At 31st December, 2000, the Group's financial instruments mainly consisted of cash and bank balances, trade debtors, other debtors and trade creditors. The carrying amounts of these financial instruments approximate their fair values because of the immediate or short-term maturity of these financial instruments.



L. SUBSEQUENT EVENTS

Subsequent to 31st December, 2000, the companies now comprising the Group undertook a restructuring exercise in connection with the Invitation, the details of which are set out in Section B.

M. NET TANGIBLE ASSETS BACKING

The net tangible asset backing of the Group for each ordinary share of HK\$0.40 each is based on the Statement of Net Assets of the Group as at 31st December, 2000 after taking into account the restructuring exercise and the proceeds and the estimated expenses arising from the issue of the new shares which form part of the Invitation:—

	Group HK\$'000
Net tangible assets	
Net tangible assets as at 31st December, 2000	51,600
Add: Estimated proceeds from subscription — 19th April, 2001	3,562
	<u>55,162</u>
Add: Estimated proceeds from the issue of 20,000,000 new shares of HK\$0.40 each at S\$0.20 per share which forms part of the Invitation (translated at S\$1 to HK\$4.4805)	17,922
Less: Estimated expenses arising from the issue of new shares	<u>(7,169)</u>
Net tangible assets after issue of new shares	<u><u>65,915</u></u>
	Number of ordinary shares
Issued share capital	
Issued on 23 August 2000 nil paid, and fully paid on 6th September, 2000	100,000
Issue of shares pursuant to the restructuring exercise set out in Section B	17,900,000
Issue of shares pursuant to the various Subscription Agreements	<u>7,111,961</u>
	<u><u>25,111,961</u></u>
Subdivision of every two ordinary share of HK\$1.00 each in the authorised and issued and paid up capital of the Company into 5 ordinary shares of HK\$0.40 each	62,779,903
Bonus issue of 0.274293 new ordinary shares of HK\$0.40 each for every ordinary share of HK\$0.40 each	<u>17,220,097</u>
Pre-Invitation	80,000,000
Issue of 20,000,000 new shares of HK\$0.40 each which form part of the Invitation	<u>20,000,000</u>
Post-Invitation	<u><u>100,000,000</u></u>
	HK\$
Net tangible assets backing for each ordinary share of HK\$0.40 each	
— after restructuring exercise and subscription but before issue of new shares	69.0 cents
— after issue of new shares	65.9 cents

N. DIVIDENDS

- (a) No dividend has been declared or paid by the Company since the date of its incorporation. The dividends declared by a subsidiary company, Colorland Hong Kong, to its then shareholders during the six financial years ended 31st December, 2000 are set out below:-

Financial year ended	Dividend	Dividend per share
	HK\$'000	HK\$
1995	Nil	Nil
1996	3,000	0.92308
1997	11,000	3.38462
1998	16,000	4.92308
1999	2,000	0.61538
2000	15,000	4.61538

O. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Company and the Group have been prepared for any period subsequent to 31st December, 2000.

Yours faithfully,

Moore Stephens
Certified Public Accountants
Singapore

Partner: Christopher Bruce Johnson



GENERAL AND STATUTORY INFORMATION

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. The name, age, address, principal occupation and business and working experience of each of our Directors and Executive Officers are set out on pages 72 to 75 of this Prospectus.
2. None of our Executive Officers currently holds directorships in companies or have had any directorships in companies in the five years preceding the date of this Prospectus.
3. The present and past directorships (held in the five years preceding the date of this Prospectus) of each of our Directors are set out below:-

Name	Present Directorship	Past Directorships
Sek Siu Ming	<u>Group Companies</u>	<u>Group Companies</u>
	Colorland Animation Ltd.	Nil
	Colorland Animation Productions Limited	
	Colorland Animation Productions (Shenzhen) Limited	
	<u>Other Companies</u>	<u>Other Companies</u>
	Rich State Ltd Tradesonic Ltd	Nil
Luo Hui Ling	<u>Group Companies</u>	<u>Group Companies</u>
	Colorland Animation Ltd.	Nil
	Colorland Animation Productions Limited	
	<u>Other Companies</u>	<u>Other Companies</u>
	Nil	Nil
Beni Prananto	<u>Group Companies</u>	<u>Group Companies</u>
	Colorland Animation Ltd.	Nil
	Colorland Animation Productions Limited	
	Colorland Animation Productions (Shenzhen) Limited	
	<u>Other Companies</u>	<u>Other Companies</u>
	PT Continental Megah Express	Sarumina Pte Ltd
	PT Fatrapolindo Nusa Industri	
	PT Mitra Rajasa Tbk	
	PT Rama Dinamika Raya	
	PT Tasikmadu Shipping	

Name	Present Directorship	Past Directorships
Lai Ka Tim	<u>Group Companies</u> Colorland Animation Ltd. Colorland Animation Productions Limited Colorland Animation Productions (Shenzhen) Limited	<u>Group Companies</u> Nil
	<u>Other Companies</u> K. T. Maritime Pte Ltd KMS Properties Pte Ltd Sealink Consultancy Pte Ltd Tanker Pacific Offshore Terminals Pte Ltd Timvest Holding Pte Ltd Wallins Maritime Pte Ltd	<u>Other Companies</u> Opnoc Pte Ltd
Jackson Lee @ Li Chik Sin	<u>Group Companies</u> Colorland Animation Ltd.	<u>Group Companies</u> Nil
	<u>Other Companies</u> Amazing Investments Ltd Cine Australasia Pty Ltd Cine Equipment Pte Ltd Cine Equipment Sdn Bhd City e-Solutions Ltd Grand Improve Investment Ltd Hong Fok Corporation Ltd Luxtime Hong Kong Ltd Metro Holdings Ltd Swiss Profile Sdn Bhd	<u>Other Companies</u> Metro China Holdings Pte Ltd Metro Food (Heilongjiang) Pte Ltd Metro Leisure (Shanghai) Pte Ltd Metro Nu-Land (Shanghai) Pte Ltd Metro Properties (Shanghai) Pte Ltd Metro Realty (Beijing) Pte Ltd
Chan Wing Leong	<u>Group Companies</u> Colorland Animation Ltd.	<u>Group Companies</u> Nil
	<u>Other Companies</u> EasyCall Asia Ltd EasyCall International Ltd EasyCall Internet (Singapore) Pte Ltd EasyCall International Pte Ltd EasyCall Internet Malaysia Sdn Bhd EasyCall Communications Philippines Inc	<u>Other Companies</u> Camerlin (Australia) Pty Ltd Camerlin Group Berhad Camerlin Holdings (Australia) Pty Ltd Camerlin Investments Pty Ltd Camerlin Pte Ltd CityLimo Auto Credit Pte Ltd CityLimo Car Care Pte Ltd CityLimo Leasing Pte Ltd CityLimo Rent-A-Car Pte Ltd Delham Investments Pte Ltd Delifrance Asia Ltd



Name	Present Directorship	Past Directorships
Chan Wing Leong (cont'd)		<p data-bbox="997 212 1212 257"><u>Other Companies</u></p> <p data-bbox="997 257 1407 324">Delifrance Australia (Franchising) Pty Ltd</p> <p data-bbox="997 324 1407 414">Delifrance Australia (Management Services) Pty Ltd</p> <p data-bbox="997 414 1407 504">Delifrance Australia (Retail) Pty Ltd</p> <p data-bbox="997 504 1407 537">Delifrance Australia Pty Ltd</p> <p data-bbox="997 537 1407 571">Delifrance Food (M) Sdn Bhd</p> <p data-bbox="997 571 1407 604">Delifrance Hong Kong Ltd</p> <p data-bbox="997 604 1407 638">Delifrance Malaysia Sdn Bhd</p> <p data-bbox="997 638 1407 672">Delifrance Singapore Pte Ltd</p> <p data-bbox="997 672 1407 705">First Capital Corporation Ltd</p> <p data-bbox="997 705 1407 739">Highsonic Enterprises Pte Ltd</p> <p data-bbox="997 739 1407 772">Jurong Shipyard Ltd</p> <p data-bbox="997 772 1407 806">Kinburgh Holdings Pte Ltd</p> <p data-bbox="997 806 1407 840">Lenso Paging Co Ltd</p> <p data-bbox="997 840 1407 873">Macondray Corporation Pte Ltd</p> <p data-bbox="997 873 1407 907">MacVilla Investments Pte Ltd</p> <p data-bbox="997 907 1407 940">MSI (BVI) Limited</p> <p data-bbox="997 940 1407 1030">Myanmar Airways International Co Ltd</p> <p data-bbox="997 1030 1407 1120">Newcourt Financial (Singapore) Pte Ltd</p> <p data-bbox="997 1120 1407 1153">Nouvelle Carte Asia Pte Ltd</p> <p data-bbox="997 1153 1407 1243">Pacific Internet Corporation Pte Ltd</p> <p data-bbox="997 1243 1407 1276">Pacific Internet Limited</p> <p data-bbox="997 1276 1407 1310">Paalink (Thailand) Co Ltd</p> <p data-bbox="997 1310 1407 1344">Paalink 1996 (Thailand) Co Ltd</p> <p data-bbox="997 1344 1407 1377">SEM Communications Pte Ltd</p> <p data-bbox="997 1377 1407 1411">Sembawang Capital Pte Ltd</p> <p data-bbox="997 1411 1407 1444">Sembawang Chemicals Pte Ltd</p> <p data-bbox="997 1444 1407 1534">Sembawang Engineering & Construction Pte Ltd</p> <p data-bbox="997 1534 1407 1624">Sembawang Engineering Investments Pte Ltd</p> <p data-bbox="997 1624 1407 1657">Sembawang Holdings (Pte) Ltd</p> <p data-bbox="997 1657 1407 1691">Sembawang KMP Corporation Pte Ltd</p> <p data-bbox="997 1691 1407 1724">Sembawang Land Pte Ltd</p> <p data-bbox="997 1724 1407 1758">Sembawang Properties Pte Ltd</p> <p data-bbox="997 1758 1407 1848">Sembawang Property Services Pte Ltd</p> <p data-bbox="997 1848 1407 1937">Sembawang SMRT Holdings Pte Ltd</p>

Name	Present Directorship	Past Directorships
Chan Wing Leong (cont'd)		<u>Other Companies</u> SembCorp Energy (Qianan) Pte Ltd SembCorp Energy (Tuas) Pte Ltd SembCorp International Pte Ltd SembCorp Marine Ltd SembCorp Sita Pte Ltd SembCorp Utilities Pte Ltd SembCorp Ventures Pte Ltd SembFood Pte Ltd SembPolysindo Chemicals Pte Ltd SUTL-MCI Restaurants Pte Ltd

4. Save as disclosed on page 57 of this Prospectus, none of our Directors has any family relationship with other Directors or with any of our Executive Officers or substantial shareholders of our Company.
5. None of our Executive Officers has any family relationship with other Executive Officers or with any of our Directors or substantial shareholders of our Company.
6. Mr Sek Siu Ming was a non-executive director of Swilynn International Holdings Limited ("SIH") from 30 May 1994 to 28 November 1994. A petition for winding up of Swilynn (H.K.) Limited ("Swilynn"), a wholly owned subsidiary SIH, had been presented by a creditor bank of Swilynn on 14 April 1993 and a provisional liquidator was appointed. On 20 October 1994 a scheme of arrangement was proposed which was eventually approved and implemented. Pursuant to this scheme SIH was involved in the restructuring of the Swilynn group of companies. Mr Sek Siu Ming resigned as a director on 28 November 1994, being the date that the scheme became effective. Save as disclosed, none of our Directors or Executive Officers is or was involved in any of the following events:-
 - (a) a petition under any bankruptcy laws filed in any jurisdiction against him or any partnership in which he was a partner or any corporation of which he was a director or an executive officer;
 - (b) a conviction for any offence, other than a traffic offence, or a judgment, including findings in relation to fraud, misrepresentation or dishonesty, given against him in any civil proceeding in Singapore or elsewhere or aware of any proceedings now pending which may lead to a conviction or judgment, or any criminal investigation pending against him; or
 - (c) the subject of an order, judgment or ruling of any court of competent jurisdiction, tribunal or government body permanently or temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.
7. The aggregate remuneration paid to our Directors for services rendered in all capacities to our Company and our subsidiaries for the last financial year ended 31 December 2000 was HK\$3.1 million. For the current financial year ending 31 December 2001, the aggregate remuneration payable to Directors by our Group is estimated to be HK\$3.5 million.
8. There are no existing or proposed service contracts between our Executive Directors or Executive Officers and our Company or any of our subsidiaries.
9. There is no shareholding qualification for Directors.



10. No option to subscribe for shares in, or debentures of, our Company or any of our subsidiaries has been granted to, or was exercised by, any of our Directors or Executive Officers within the last financial year.
11. None of our Directors is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to, our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.
12. Save as disclosed on page 81 of this Prospectus, none of our Directors or Executive Officers or substantial shareholders of our Company has any substantial interest, direct or indirect, in any company carrying on a similar trade as our Company or our subsidiaries.
13. The interests of our Directors and substantial shareholders in our Shares as at the date of this Prospectus are set out on page 56 of this Prospectus.
14. No sum or benefit has been paid or is agreed to be paid to any Director or expert, or to any firm in which such Director or expert is a partner or any corporation in which such Director or expert holds shares or debentures, in cash or shares or otherwise, by any person to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him or by such firm or corporation in connection with the promotion or formation of our Company.
15. None of our Directors has any interest in any existing contract or arrangement which is significant in relation to the business of our Company and our subsidiaries, taken as a whole.

SHARE CAPITAL

16. As at the date of this Prospectus, there is only one class of shares in the capital of our Company. There are no founder, management or deferred shares. The rights and privileges attached to our Shares are stated in the Bye-laws of our Company.
17. The changes in the issued and paid-up share capital of our Company and our subsidiaries within the two years preceding the date of this Prospectus are set out below:–

Date of Issue	No. of ordinary shares issued	Par Value	Purpose of Issue	Consideration for Issue	Persons Issued to
<u>The Company</u>					
23 August 2000	100,000	HK\$1.00	Organisation of Company	Nil ¹	Sek Siu Ming
6 September 2000	7,100,000	HK\$1.00	Acquisition of entire issued share capital of Colorland HK	1,300,000 ordinary shares of HK\$1.00 each in the capital of Colorland HK Including one ordinary share of HK\$1.00 held by Sek Siu Ming on trust for our Company	Sek Siu Ming
6 September 2000	7,200,000	HK\$1.00	Acquisition of entire issued share capital of Colorland HK	1,300,000 ordinary shares of HK\$1.00 each in the capital of Colorland HK	Wonder Point Technology Limited
6 September 2000	1,980,000	HK\$1.00	Acquisition of entire issued share capital of Colorland HK	357,500 shares of HK\$1.00 each in the capital of Colorland HK	Wiseland Development Ltd ²

Date of Issue	No. of ordinary shares issued	Par Value	Purpose of Issue	Consideration for Issue	Persons Issued to
6 September 2000	720,000	HK\$1.00	Acquisition of entire issued share capital of Colorland HK	130,000 shares of HK\$1.00 each in the capital of Colorland HK	Chin Wui Ching
6 September 2000	900,000	HK\$1.00	Acquisition of entire issued share capital of Colorland HK	162,500 shares of HK\$1.00 each in the capital of Colorland HK	Chen Tou Sin, David
6 September 2000	2,022,472	HK\$1.00	Working capital	HK\$4,484,305	Spectra Technologies Limited
6 September 2000	1,011,236	HK\$1.00	Working capital	HK\$2,242,112	Arthur Tan Keng Hock
6 September 2000	1,011,236	HK\$1.00	Working capital	HK\$2,242,112	Sim Seng Kiang
12 September 2000	1,211,815	HK\$1.00	Working capital	HK\$8,167,633	Cruxible Pte Ltd
12 September 2000	605,908	HK\$1.00	Working capital	HK\$4,083,819	CTI II Limited
19 April 2001	1,249,294	HK\$1.00	Working capital	HK\$3,561,987	Luo Hui Ling ²

Notes:-

- 1 100,000 ordinary shares of HK\$1.00 each were issued at par, to Mr Sek Siu Ming on a nil paid basis and then subsequently credited as fully paid pursuant to the Restructuring Exercise on page 58 of this Prospectus.
- 2 56,000 ordinary shares of HK\$1.00 each were transferred from Wiseland Development Ltd to Mdm Luo Hui Ling.

18. Save as disclosed in paragraph 17 above, no shares in, or debentures of, our Company or any of our subsidiaries have been issued, or are proposed to be issued, as fully or partly paid for cash or for a consideration other than cash, within the two years preceding the date of this Prospectus.
19. No person has been, or is entitled to be, granted an option to subscribe for shares in, or debentures of, our Company or any of our subsidiaries.

BYE-LAWS

20. The provisions in the Bye-laws of the Company relating to the remuneration, voting rights on proposals, arrangement or contracts in which the Directors are interested, borrowing powers of the Directors, the restrictions on the transferability of shareholdings and the voting rights of members of the Company are set out in Appendix 2 to this Prospectus.

BANK BORROWINGS AND WORKING CAPITAL

21. Our Group had no borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trading bills) or acceptance credits, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities as at 31 December 2000.
22. In the opinion of our Directors, no minimum amount must be raised by the issue of the New Shares in order to provide the sums required to be provided in respect of each of the following:-
 - (a) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue of the New Shares;
 - (b) estimated expenses (including underwriting commission and brokerage) for the Invitation payable by our Company;



- (c) the repayment of any money borrowed by our Company in respect of any of the foregoing matters; and
- (d) working capital.

No amounts in respect of the foregoing matters are to be provided otherwise than out of the proceeds from the issue of the New Shares.

23. Our Directors are of the opinion that our Group has adequate working capital for our requirements.

MATERIAL CONTRACTS

24. The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by our Company and our subsidiaries within the two years preceding the date of this Prospectus and are or may be material:-

- (a) A Sale and Purchase Agreement dated 6 September entered into between our Company and Sek Siu Ming, Chen Tou Sin David, Chin Wui Ching, Wonder Point Technology Limited and Wiseland Development Ltd relating to the sale and purchase of 3,250,000 ordinary shares of HK\$1.00 each in the capital of Colorland Hong Kong;
- (b) A Subscription Agreement dated 6 September 2000 entered into between our Company and Spectra relating to the subscription by Spectra for 2,022,472 ordinary shares of HK\$1.00 each in the capital of our Company;
- (c) A Subscription Agreement dated 6 September 2000 entered into between our Company and Arthur Tan Keng Hock relating to the subscription by Arthur Tan Keng Hock for 1,011,236 ordinary shares of HK\$1.00 each in the capital of our Company;
- (d) A Subscription Agreement dated 6 September 2000 entered into between our Company and Sim Seng Kiang relating to the subscription by Sim Seng Kiang for 1,011,236 ordinary shares of HK\$1.00 each in the capital of our Company;
- (e) A Subscription Agreement dated 15 September 2000 entered into between our Company and Cruxible Pte Ltd relating to the subscription by Cruxible Pte Ltd for 1,211,815 ordinary shares of HK\$1.00 each in the capital of our Company;
- (f) A Subscription Agreement dated 15 September 2000 entered into between our Company and CTI II Limited relating to the subscription by CTI II Limited for 605,908 ordinary shares of HK\$1.00 each in the capital of our Company;
- (g) A Subscription Agreement dated 6 September 2000 entered into between our Company and Luo Hui Ling relating to the subscription by Luo Hui Ling for 1,249,294 ordinary shares of HK\$1.00 each in the capital of our Company;
- (h) A Depository Agreement dated 25 May 2001 made between the Company and CDP pursuant to which CDP agreed to act as a central depository for the securities of the Company (including the Shares) for trade in such securities through the SGX-ST;
- (i) Management and Underwriting Agreement dated 25 May 2001 made between the Company, and Vickers Ballas referred to in paragraph 26 on page 107 of this Prospectus; and
- (j) Placement Agreement dated 25 May 2001 made between the Company and Vickers Ballas referred to in paragraph 27 on page 107 of this Prospectus.

LITIGATION

25. Neither our Company nor any of our subsidiaries is engaged in any litigation as plaintiff or defendant in respect of any claims or amounts which are material in the context of the Invitation and our Directors have no knowledge of any proceedings pending or threatened against our Company or any of our subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might materially affect the financial position or the business of our Company or any of our subsidiaries.

MANAGEMENT, UNDERWRITING AND PLACEMENT ARRANGEMENTS

26. Pursuant to the management and underwriting agreement dated 25 May 2001 (the “Management and Underwriting Agreement”) made between our Company and Vickers Ballas, our Company appointed Vickers Ballas to manage the Invitation and to underwrite the 1,500,000 Offer Shares. Vickers Ballas will receive a management fee, payable by our Company for its services rendered in connection with the Invitation. Our Company will pay Vickers Ballas an underwriting commission of (i) 5.0% of the Issue Price for each Offer Share subscribed for by Vickers Ballas as underwriter pursuant to its obligations under the Management and Underwriting Agreement; and (ii) 2.0% of the Issue Price for each Offer Share validly subscribed for by the public pursuant to the Invitation.
27. Pursuant to the placement agreement (the “Placement Agreement”) dated 25 May 2001 made between our Company and Vickers Ballas, as the Placement Agent, Vickers Ballas has agreed to subscribe for or procure the subscriptions of the Placement Shares. Our Company will pay Vickers Ballas a placement commission of (i) 5.0% of the Issue Price for each Placement Share subscribed for by Vickers Ballas; and (ii) 2.0% of the Issue Price for each Placement Share for which Vickers Ballas has procured subscriptions.
28. Brokerage will be paid by our Company on the New Shares at the rate of 1.0% of the Issue Price for each Invitation Share. In respect of the Offer Shares, the brokerage will be paid to members of the SGX-ST, merchant banks and members of the Association of Banks in Singapore in respect of successful applications made on Application Forms bearing their respective stamps, or to the Participating Banks in respect of successful applications made through Electronic Applications at their respective ATMs. In respect of the Placement Shares, the brokerage will be paid to the Placement Agent in respect of successful applications made on printed Application Forms or to the Internet Stockbroker in respect of successful applications made through the Internet IPO Website.
29. Save as aforesaid, no commission, discount or brokerage has been paid or other special terms granted within the two years preceding the date of this Prospectus or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in, or debentures of, the Company or its subsidiaries.
30. The Management and Underwriting Agreement may be terminated by Vickers Ballas at any time on or before the close of the Invitation upon the occurrence of certain events including, inter alia, any significant change in the political, financial or economic or stock market conditions in Singapore as would, in the reasonable opinion of Vickers Ballas exercised in good faith and after consultation with us, result or be likely to result in a material adverse fluctuation or adverse conditions in the stock market in Singapore or be likely to prejudice the success of the Invitation.
31. The Placement Agreement is conditional upon the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement.
32. In the event that the Management and Underwriting Agreement is terminated, we reserve the right, at our absolute discretion, to cancel the Invitation.



MISCELLANEOUS

33. The nature of the business of our Company is stated on pages 61 and 62 of this Prospectus. As at the date of this Prospectus, the corporations which by virtue of Section 6 of the Companies Act are deemed to be related to our Company are set out below:–

Subsidiaries of the Company

- (i) Colorland Hong Kong; and
 - (ii) Colorland (Shenzhen).
34. The time of opening of the Application List is set out on page 16 of this Prospectus.
35. The amount payable on application is S\$0.20 for each New Share.
36. There has been no previous issue of Shares by our Company or offer for sale of our Shares to the public within the two years preceding the date of this Prospectus.
37. The amount of preliminary expenses in respect of the incorporation of the Company is approximately US\$5,200, which has been paid by our Company. The estimated amount of expenses of the Invitation and of the application for listing, including management fee, auditors' fee, solicitors' fee, placement commission, brokerage and all other incidental expenses in relation to the Invitation will be borne by the Company and is approximately S\$1.6 million which can be broken down as follows:–

Listing fee	\$5,000
Professional fees	\$700,000
Underwriting and Placement commission and brokerage	\$120,000
Miscellaneous expenses	\$775,000
Total estimated expenses in connection with the Invitation	\$1,600,000

38. No amount of cash or securities or benefit has been paid or given to any promoter within the two years preceding the date of this Prospectus or is proposed or intended to be paid or given to any promoter at any time.
39. No commission, discount or brokerage has been paid or other special terms granted within the two years preceding the date of this Prospectus or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in, or debentures of, our Company or any of our subsidiaries.
40. No expert is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to our Company or any of our subsidiaries or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.
41. Application monies received by our Company in respect of successful applications (including successful applications which are subsequently rejected) will be placed in a separate non-interest bearing account with DBS Bank (the "Receiving Bank"). In the ordinary course of business, the Receiving Bank will deploy these monies in the interbank money market. Our Company will receive 100.0 % share of any net interest income. Any refund of all or part of the application monies to unsuccessful or partially successful applicants will be made without any interest or any share of revenue or any other benefit arising therefrom.
42. Save as disclosed in this Prospectus, our Directors are not aware of any relevant material information including trading factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect the profits of our Company and our subsidiaries.

43. Save as disclosed in this Prospectus, the financial condition and operations of our Group are not likely to be affected by any of the following:-
- (a) known trends or demands, commitments, events or uncertainties that will result in or are reasonably likely to result in our Group's liquidity increasing or decreasing in any material way;
 - (b) material commitments for capital expenditure;
 - (c) unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from operations; and
 - (d) known trends or uncertainties that have had or that we reasonably expect will have a material favourable or unfavourable impact on revenues or operating income.
44. No Shares shall be allocated or allotted on the basis of this Prospectus later than six months after the date of this Prospectus.
45. We currently have no intention of changing our auditors or appointing new joint auditors after the listing of our Company on the SGX-ST.
46. There is no property purchased or acquired by our Company or by any of our subsidiaries or proposed so to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription by this Prospectus or the purchase or acquisition of which has not been completed at the date of this Prospectus, other than property the contract for the purchase or acquisition whereof was entered into in the ordinary course of our Company's or subsidiaries' business, the contract not being made in contemplation of the issue nor the issue in consequence of the contract.

CONSENTS

47. The Joint Auditors and Reporting Accountants have given and have not withdrawn their written consent to the issue of this Prospectus with the inclusion herein of the Accountants' Report and references to their name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
48. The Manager, Underwriter and Placement Agent, the Solicitors to the Invitation, the Legal Advisers on Hong Kong law, the Legal Advisers on Bermuda law, the Legal Advisers on PRC law, the Bermuda Registrar and Share Transfer Agent and the Singapore Share Transfer Agent have each given and have not withdrawn their written consents to the issue of this Prospectus with the inclusion herein of their names and references thereto in the form and context in which they respectively appear in this Prospectus and to act in such respective capacities in relation to this Prospectus.

RESPONSIBILITY STATEMENT BY OUR DIRECTORS

49. This Prospectus has been seen and approved by our Directors and they individually and collectively accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed herein are fair and accurate in all material respects as of the date hereof and there are no material facts the omission of which would make any statements in this Prospectus misleading and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group.



STATEMENT BY THE MANAGER

50. The Manager confirms that, having made due and careful enquiry and to the best of its knowledge and belief, this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group and there are no material facts the omission of which would make any statement herein misleading.

DOCUMENTS AVAILABLE FOR INSPECTION

51. The following documents or copies thereof may be inspected at the office of M&C Services Private Limited at 138 Robinson Road, #17-00 Hong Leong Centre, Singapore 068906 during normal business hours for a period of six months from the date of this Prospectus:-
- (a) the Memorandum and Bye-laws of our Company;
 - (b) the Directors' Report set out on page 82 of this Prospectus;
 - (c) the Accountants' Report set out on pages 83 to 99 of this Prospectus;
 - (d) the material contracts referred to in paragraph 24 on page 106 of this Prospectus;
 - (e) the letters of consent referred to in paragraphs 47 and 48 on page 109 of this Prospectus; and
 - (f) the audited accounts of our subsidiaries for the three financial years ended 31 December 1998, 1999 and 2000 and the audited accounts of the Group for the four months ended 31 December 2000.

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION

Applications are invited for the subscription of the New Shares at the Issue Price subject to the following terms and conditions:-

1. Applications for the Offer Shares may only be made by way of the printed WHITE Offer Shares Application Forms or through ATMs belonging to the Participating Banks ("ATM Applications").

Application for the Placement Shares (other than the Internet Placement Shares) may only be made by way of the printed BLUE Placement Shares Application Forms. Applications for Offer Shares made by way of ATM Applications and applications for Internet Placement Shares made by way of Internet Applications shall be defined as Electronic Applications ("Electronic Applications").

Applications for the Internet Placement Shares may only be made online via the Internet IPO Website.

Applicants MAY NOT use their CPF to apply for the New Shares.

2. APPLICATIONS FOR THE NEW SHARES MUST BE MADE IN LOTS OF 1,000 SHARES OR IN INTEGRAL MULTIPLES THEREOF. APPLICATIONS THAT DO NOT COMPLY WITH THIS REQUIREMENT WILL BE REJECTED.
3. Only one application may be made for the benefit of a person in his own name for either the Offer Shares or the Placement Shares.

An applicant (other than an approved nominee company) who has made an application for Offer Shares in his own name may not submit another separate application for Offer Shares whether by way of an Application Form or by way of an ATM Application, for any other person. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares by way of an Offer Shares Application Form may not make another separate application for Offer Shares by way of an ATM Application and *vice versa*. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for the Placement Shares by way of an Internet Application through the Internet IPO Website shall not make another application for the Placement Shares by way of a printed Application Form. Conversely, a person submitting an application for the Placement Shares by way of a printed Application Form shall not make another application for Placement Shares using another printed Application Form or by way of Internet Application through the Internet IPO Website. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Placement Shares either by way of a Placement Shares Application Form or by way of an Internet Application shall not make any separate application for Offer Shares either by way of an Offer Shares Application Form or by way of an ATM Application. Such separate applications shall be deemed to be multiple applications and shall be rejected.



Conversely, an applicant who has made an application for Offer Shares either by way of an Offer Shares Application Form or by way of an ATM Application shall not make any separate application for Placement Shares either by way Placement Shares Application Forms or by way of an Internet Application. Such separate applications shall be deemed to be multiple applications and shall be rejected.

A person, other than an approved nominee company, who is submitting an application in his own name should not submit any other applications, whether by way of a Placement Shares Application Form or an Offer Shares Application Form or by way of an Electronic Application, for any other person. Such separate applications will be deemed to be multiple applications and shall be rejected.

Joint or multiple applications will be rejected. Persons submitting or procuring submissions of multiple share applications for the Placement Shares or the Offer Shares (whether by way of printed Application Forms or by way of Electronic Applications) may be deemed to have committed an offence under the Penal Code (Chapter 224) of Singapore and the Securities Industry Act (Chapter 289) of Singapore and such applications may be referred to the relevant authorities for investigation. Applications appearing to be or suspected of being multiple applications will be liable to be rejected at the discretion of the Company.

4. Applications will not be accepted from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships or any other non-corporate bodies, joint Securities Account holders of CDP accounts and applicants whose addresses (furnished in their printed Application Forms or, in the case of Electronic Applications, contained in the records of the Internet Stockbroker or the relevant Participating Banks, as the case may be) bear post office box numbers.

In addition, applicants who wish to subscribe for the Internet Placement Shares (a) must not be corporations, sole-proprietorships, partnerships, or any other non-corporate entities; (b) must be over the age of 21 years; (c) must not be undischarged bankrupts; (d) must apply for the New Shares in Singapore; and (e) must be customers who maintain Internet trading accounts with the Internet Stockbrokers.

5. The existence of a trust will not be recognised. An application by any person must be made in his/their own name(s) and without qualification. Applications made by way of an Application Form in the name(s) of an approved nominee company or approved nominee companies must comply with paragraph 6 below.
6. **NOMINEE APPLICATIONS MAY BE MADE BY APPROVED NOMINEE COMPANIES ONLY.** Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, licensed securities dealers in Singapore and nominee companies controlled by them. Applications made by any persons acting as nominees other than approved nominee companies shall be rejected.
7. **FOR NON-NOMINEE APPLICATIONS, EACH APPLICANT MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN HIS OWN NAME AT THE TIME OF APPLICATION.** An applicant without an existing Securities Account with CDP in his own name at the time of his application will have his application rejected (in the case of an application by way of a printed Application Form) or will not be able to complete his Electronic Application (in the case of an Internet Application or ATM Application). An applicant with an existing Securities Account with CDP who fails to provide his Securities Account number or who provides an incorrect Securities Account number in Section B of the Application Form or in his Electronic Application, as the case may be, is liable to have his application rejected. Subject to paragraph 8 below, an application may be rejected if the applicant's particulars such as name, NRIC/passport number, nationality and permanent residence status provided in his Application Form or, in the case of an Electronic Application, contained in the records of the Internet Stockbroker or the Participating Banks (as the case may be) at the time of his Electronic Application differ from those particulars in his Securities Account as maintained by CDP. If the applicant possesses more than one individual direct Securities Account with CDP, his application shall be rejected.

8. If the address of an applicant stated in the Application Form or, in the case of an Electronic Application, contained in the records of the Internet Stockbroker or Participating Banks (as the case may be) is different from the address registered with CDP, the applicant must inform CDP of his updated address promptly, failing which the notification letter on successful allotment and/or allocation and other correspondence from the CDP will be sent to his address last registered with CDP.
9. Our Company reserves the right to reject any application which does not conform strictly to the instructions set out in the Application Forms and this Prospectus or which does not comply with the instructions for Electronic Applications or with the terms and conditions of this Prospectus or which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn up or improper form of remittance. Our Company further reserves the right to treat as valid any applications not completed or submitted or effected in all respects in accordance with the terms and conditions of this Prospectus, the instructions set out in the Application Forms or the instructions for the Electronic Application and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.
10. Our Company reserves the right to reject or accept any application, or to accept any application in whole or in part, or to scale down or ballot, any application without assigning any reason therefor, and no enquiry and/or correspondence on the decision of our Company will be entertained. This right applies to applications made by way of printed Application Forms and by way of Electronic Applications. In deciding the basis of allotment and/or allocation, which shall be at the discretion of our Company, due consideration will be given to the desirability of allotting and/or allocating the New Shares to a reasonable number of applicants with a view to establishing an adequate market for the Shares.
11. Share certificates will be registered in the name of CDP and will be forwarded only to CDP. It is expected that CDP will send to each successful applicant, at his own risk, within 15 Market Days after the close of the Application List, a statement of account stating that his Securities Account has been credited with the number of New Shares allotted to him. This will be the only acknowledgement of application monies received and is not an acknowledgement by our Company. Each applicant irrevocably authorises CDP to complete and sign on his behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of the New Shares allotted to the applicant. This authorisation applies to applications made by way of printed Application Forms and by way of Electronic Applications.
12. By completing and delivering an Application Form or, in the case of an Electronic Application, by pressing the "Enter" or "OK" or "Confirm" or "Yes" or any other relevant key on the ATM (in the case of an ATM Application) or by clicking "Submit" or "Continue" or "Yes" or "Confirm" or any other relevant button on the Internet IPO Website screen of the Internet Stockbroker (in the case of an Internet Application) in accordance with the provisions herein, each applicant:–
 - (a) irrevocably offers to subscribe for the number of New Shares specified in his application (or such smaller number for which the application is accepted) at the Issue Price for each Invitation Share and agrees that he will accept such Shares as may be allotted to him, in each case on the terms of, and subject to the conditions set out in, the Prospectus and the Memorandum of Association and Bye-laws of our Company;
 - (b) agrees that in the event of inconsistency between the terms and conditions for application set out in this Prospectus and those set out in the Internet IPO Website of the Internet Stockbroker (in the case of an Internet Application) or the ATMs of the Participating Banks (in the case of an ATM Application), the terms and conditions set out in this Prospectus shall prevail;
 - (c) agrees that the aggregate Issue Price for the New Shares applied for is due and payable to the Company forthwith; and
 - (d) warrants the truth and accuracy of the information provided in his application.



13. In the event of an under-subscription for the Placement Shares, that number of Placement Shares may be made available to satisfy applications for the Offer Shares, to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

Conversely, in the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares shall be made available to satisfy applications for the Placement Shares, to the extent there are excess applications for the Placement Shares as at the close of the Application List.

In the event that the Internet Placement Shares are under-subscribed, that number of Internet Placement Shares under-subscribed shall be used to satisfy applications for the Placement Shares to the extent that there are excess applications for the Placement Shares as at the close of the Application List or to satisfy applications for the Offer Shares to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

14. Acceptance of applications will be conditional upon, *inter alia*, our Company being satisfied that:–
 - (a) permission has been granted by the SGX-ST to deal in, and quotation for, all the New Shares on the SGX-ST; and
 - (b) the Management and Underwriting Agreement and the Placement Agreement referred to on page 107 of this Prospectus have become unconditional and have not been terminated.
15. No Shares will be allotted on the basis of this Prospectus later than six months after the date of issue of this Prospectus.
16. Any reference to the “applicant” in this section shall include an individual, a corporation or an approved nominee company applying for the New Shares.
17. No application will be held in reserve.
18. Additional terms and conditions for applications by way of printed Application Forms are set out on pages 115 to 117 of this Prospectus.
19. Additional terms and conditions for Electronic Applications are set out on pages 118 to 123 of this Prospectus.
20. Each applicant irrevocably authorises CDP to disclose the outcome of his application, including the number of New Shares allotted to the applicant pursuant to his application, to the Singapore Share Transfer Agent, SCCS, our Company, the Manager, the Placement Agent, the Internet Stockbroker, and any other parties so authorised by our Company and/or the Manager and/or the Placement Agent.

ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING APPLICATION FORMS

Applications by way of Application Forms shall be made on and subject to the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below as well as those set out under the section on “**TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION**” on pages 111 to 114 of this Prospectus, as well as the Memorandum of Association and Bye-laws of our Company.

1. Applications for Offer Shares must be made using the **WHITE** Application Forms and official envelopes “A” and “B”.

Applications for Placement Shares (other than Internet Placement Shares) must be made using the **BLUE** Application Forms for Placement Shares accompanying and forming part of this Prospectus.

Attention is drawn to the detailed instructions contained in the Application Forms and this Prospectus for the completion of the Application Forms that must be carefully followed. **The Company reserves the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, incorrectly completed or which are accompanied by improperly drawn up or improper form of remittances.**

2. The Application Forms must be completed in English. Please type or write clearly in ink using **BLOCK LETTERS**.
3. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or “N.A.” should be written in any space that is not applicable.
4. Individuals, corporations and approved nominee companies must give their names in full. Applications must be made, in the case of individuals, in their full names as appearing in their identity cards (if applicants have such identification documents) or in their passports and, in the case of corporations, in their full names as registered with a competent authority. An applicant, other than an individual, completing the Application Form under the hand of an officer, must state the name and capacity in which that officer signs. A corporation completing the Application Form is required to affix its Common Seal (if any) in accordance with its Memorandum of Association and Bye-laws or equivalent constitutive documents of the corporation. If an application by a corporate applicant is successful, a copy of its Memorandum of Association and Bye-laws or equivalent constitutive documents must be lodged with our Company’s Share Transfer Agent. Our Company reserves the right to require any applicant to produce documentary proof of identification for verification purposes.
5.
 - (a) All applicants must complete Sections A and B and sign page 1 of the Application Forms.
 - (b) All applicants are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Forms. Where paragraph 7(a) is deleted, the applicants must also complete Section C of the Application Forms with particulars of the beneficial owner(s).
 - (c) Applicants who fail to make the required declaration in paragraph 7(a) or 7(b), as the case may be, on page 1 of the Application Forms are liable to have their applications rejected.



6. Individual applicants will be required to declare whether they are citizens or permanent residents of Singapore. Corporate applicants, whether incorporated or unincorporated and wherever incorporated or constituted, will be required to declare whether they are corporations in which citizens or permanent residents of Singapore or any body corporate constituted under any statute of Singapore have an interest in the aggregate of more than 50% of the issued share capital of or interests in such corporations. Approved nominee companies are required to declare whether the beneficial owner of the Placement Shares is a citizen or permanent resident of Singapore or a corporation, whether incorporated or unincorporated and wherever incorporated or constituted, in which citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted under any statute of Singapore have an interest in the aggregate of more than 50% of the issued share capital of or interests in such corporation.
7. Applications by way of Application Forms for the New Shares must be accompanied by payment in cash in the form set out below only. Each application must be accompanied by a cash remittance in **Singapore currency** for the full amount payable, in respect of the number of Placement Shares applied for, in the form of a **BANKER'S DRAFT** or **CASHIER'S ORDER** drawn on a bank in Singapore, made out in favour of "**COLORLAND SHARE ISSUE ACCOUNT**" and crossed "**A/C PAYEE ONLY**", with the name and address of the applicant written clearly on the reverse side. Applications not accompanied by any payment or accompanied by **ANY OTHER FORM OF PAYMENT WILL NOT BE ACCEPTED**. Remittances bearing "**NOT TRANSFERABLE**" or "**NON TRANSFERABLE**" crossings shall be rejected. No acknowledgement of receipt will be issued by the Company or the Placement Agent for applications and application monies received.
8. It is expected that unsuccessful or rejected applications or applications that are not successfully balloted or accepted will be returned to the applicants by ordinary post (without interest or any share of revenue or other benefit arising therefrom) within three Market Days after the close of the Application List at the applicants' own risk. Where an application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded to the applicant by ordinary post at his own risk (without interest or any share of revenue or other benefit arising therefrom) within 14 days after the close of the Application List provided that the remittance accompanying such application which has been presented for payment or other processes has been honoured and the application monies received in the designated share issue account.
9. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.
10. In consideration of our Company having distributed the Application Form to the applicant and agreeing to close the Application List at 12.00 noon on 4 June 2001 or such other time or date as our Company, in consultation with the Manager, decide and by completing and delivering the Application Form, the applicant agrees that:
 - (a) his application is irrevocable;
 - (b) his remittance will be honoured on first presentation and that any application monies returnable may be held pending clearance of his payment and he will not be entitled to any interest or any share of revenue or other benefit arising therefrom;
 - (c) in making his application, reliance is placed solely on the information contained in the Prospectus and that none of our Company, Vickers Ballas nor any other person involved in the Invitation shall have any liability for any information not so contained;
 - (d) in respect of the New Shares for which his application has been received and not rejected, acceptance of his application shall be constituted by written notification by or on behalf of our Company and not otherwise, notwithstanding any remittance being presented for payment by or on behalf of our Company;

- (e) he will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of his application; and
- (f) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that he irrevocably submits to the non-exclusive jurisdiction of the Singapore courts.

11. (a) **Applications for Offer Shares by way of printed application forms**

Applications for Offer Shares by way of printed application form **must** be made using the **WHITE** Offer Share Application Form and the **WHITE** official envelopes "A" and "B".

The applicant must:-

- (i) enclose the **WHITE** Offer Shares Application Form, duly completed and executed together with the correct remittance in accordance with the terms and conditions of this Prospectus in the **WHITE** official envelope "A" which is provided;
- (ii) in the appropriate spaces on the **WHITE** official envelope "A":-
 - (1) write his name and address;
 - (2) state the number of Offer Shares applied for;
 - (3) tick the relevant box to indicate the form of payment; and
 - (4) affix adequate Singapore postage;
- (iii) SEAL THE OFFICIAL WHITE ENVELOPE ("A");
- (iv) write, in the appropriate box provided, on the larger official **WHITE** envelope "B" addressed to **VICKERS BALLAS & CO. PTE LTD, 30 RAFFLES PLACE, #07-00 CALTEX HOUSE, SINGAPORE 048622**, the number of Offer Shares for which the application is made; and
- (v) insert **WHITE** official envelope "A" into **WHITE** official envelope "B", seal **WHITE** official envelope "B".

The applicant must affix adequate postage (if despatching by ordinary post) and thereafter the sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at the applicant's own risk to **VICKERS BALLAS & CO. PTE LTD, 30 RAFFLES PLACE #07-00, CALTEX HOUSE, SINGAPORE 048622**, to arrive by **12.00 noon on 4 June 2001 or such other date and time as our Company may, in consultation with the Manager, decide**. Local Urgent Mail or Registered Post must **NOT** be used.

ONLY ONE APPLICATION should be enclosed in each envelope. No acknowledgement of receipt will be issued for any application or remittance received.

(b) **Applications for Placement Shares by way of printed application forms**

Applications for Placement Shares (other than Internet Placement Shares) must be made using the **BLUE** Application Forms. The completed **BLUE** Placement Shares Application Form and the applicant's remittance for the full amount payable in respect of the number of Placement Shares (other than Internet Placement Shares) applied for and with the name and address of the applicant written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by the applicant.

The applicant must affix adequate postage (if despatching by ordinary post) and thereafter the sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at the applicant's own risk to **VICKERS BALLAS & CO. PTE LTD, 30 RAFFLES PLACE #07-00, CALTEX HOUSE, SINGAPORE 048622**, to arrive by **12.00 noon on 4 June 2001 or such other date and time as our Company may, in consultation with the Manager, decide**. Local Urgent Mail or Registered Post must **NOT** be used.

ONLY ONE APPLICATION should be enclosed in each envelope. No acknowledgement of receipt will be issued for any application or remittance received.



ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application. Any reference to the “Applicant” in these terms and conditions for Electronic Applications and the Steps shall mean the applicant who applies for New Shares by way of an ATM Application or through an Internet Application.

A. Application for Offer Shares by way of ATM Applications

An applicant may apply for Offer Shares by way of ATM Application. The procedures for applying for Offer Shares by way of ATM Application are set out on the ATM screens of the relevant Participating Banks. Currently, DBS Bank, OCBC and Keppel-Tatlee Bank are the only Participating Banks through which an ATM Application for Offer Shares may be made.

For illustrative purposes, the procedures for an ATM Application for Offer Shares is set out in the section “Steps for an ATM Application through ATMs of DBS Bank (including its POSBank Services division)” (the “DBS Steps”) appearing on pages 122 to 123 of this Prospectus. The DBS Steps set out the actions that the Applicant must take at the ATMs of DBS Bank in order to complete an ATM Application. The actions that the Applicant must take at the ATMs of the other Participating Banks are set out on the ATM screens of the other Participating Banks.

An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. For an ATM Application, an Applicant must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before he can make an ATM Application at the ATMs of that Participating Bank. Upon completion of his ATM Application transaction, the Applicant will receive an ATM transaction slip (“Transaction Record”) confirming the details of his ATM Application. The Transaction Record is for the Applicant’s retention and should not be submitted with any printed Application Form.

An Applicant must ensure that he enters his own Securities Account Number when using the ATM card issued to him in his own name. Using his own Securities Account Number with an ATM card not issued to him in his own name will render his ATM Application liable to be rejected. An Applicant, including one who has a joint bank account with a Participating Bank, must use an ATM card issued to him in his own name and must enter his own Securities Account number. An Applicant who fails to use his own ATM card or who does not key in his own Securities Account Number will have his application rejected.

An ATM Application shall be made in accordance with, and subject to, the terms and conditions of this Prospectus, including but not limited to the terms and conditions below as well as those set out under the section on “Terms, Conditions and Procedures for Application” as set out on pages 111 to 114 of this Prospectus, as well as the Memorandum of Association and Bye-laws of the Company.

1. In connection with his ATM Application for Offer Shares, the Applicant is required to confirm statements to the following effect in the course of activating the ATM Application:–
 - (a) that he has received a copy of this Prospectus and has read, understood and agreed to all the terms and conditions of application for the Offer Shares and this Prospectus prior to effecting the ATM Application and agrees to be bound by the same;
 - (b) that he consents to the disclosure of his name, NRIC or passport number, address, nationality and permanent resident status, CDP Securities Account number, CPF Investment Account number (if applicable) and share application amount (the “Relevant Particulars”) from his account with that Participating Bank to the Singapore Share Transfer Agent, SCCS, CDP, CPF, our Company and the Manager (the “Relevant Parties”); and
 - (c) that the ATM application is his only application for the New Shares and it is made in his name and at his own risk.

His application will not be successfully completed and cannot be recorded as a completed transaction unless he presses the “Enter” or “OK” or “Confirm” or “Yes” or any other relevant key in the ATM of the relevant Participating Bank. By doing so, the Applicant shall be treated as signifying his confirmation of each of the above statements. In respect of statement 1(b) above, his confirmation shall signify, and shall be treated as, his written permission given in accordance with the relevant laws of Singapore, including Section 47(4) of the Banking Act (Chapter 19) of Singapore, to the disclosure by that Participating Bank of the Relevant Particulars of his account(s) with that Participating Bank to the Relevant Parties.

2. An Applicant may make an ATM Application at an ATM of any Participating Bank in the form of cash only by authorising such Participating Bank to deduct the full amount payable from his account with such Participating Bank.
3. The Applicant irrevocably agrees and undertakes to subscribe for and to accept the number of Offer Shares applied for as stated on the Transaction Record or on the Confirmation Screen or any lesser number of Offer Shares that may be allotted to him in respect of his ATM Application. In the event that our Company decides to allot any lesser number of such Offer Shares or not to allot any Offer Shares to the Applicant, the Applicant agrees to accept such decision as final. If the Applicant’s ATM Application is successful, his confirmation (by his action of pressing the “Enter” or “OK” or “Confirm” or “Yes” or any other relevant key on the ATM of the relevant Participating Bank) of the number of Offer Shares applied for shall signify and shall be treated as his acceptance of the number of Offer Shares that may be allotted to him and his agreement to be bound by the Memorandum of Association and Bye-laws of the Company.
4. The Applicant irrevocably requests and authorises our Company to:–
 - (a) register the Offer Shares allotted to the Applicant in the name of CDP for deposit into his Securities Account;
 - (b) send the relevant Share certificate(s) to CDP;
 - (c) return or refund (without interest or any share of revenue or other benefit arising therefrom) the application monies in Singapore currency should his ATM Application not be accepted, by automatically crediting the Applicant’s bank account with his Participating Bank with the relevant amount within three Market Days after the close of the Application List; and
 - (d) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application monies in Singapore currency should his ATM Application be accepted in part only, by automatically crediting the Applicant’s bank account with his Participating Bank with the relevant amount within 14 days after the close of the Application List.
5. **BY MAKING AN ATM APPLICATION, THE APPLICANT CONFIRMS THAT HE IS NOT APPLYING FOR THE OFFER SHARES AS NOMINEE OF ANY OTHER PERSON AND THAT THE ATM APPLICATION THAT HE MAKES IS THE ONLY APPLICATION FOR THE NEW SHARES MADE BY HIM AS BENEFICIAL OWNER.**

THE APPLICANT SHALL MAKE ONLY ONE ATM APPLICATION AND SHALL NOT MAKE ANY OTHER APPLICATION FOR THE NEW SHARES, WHETHER BY WAY OF ELECTRONIC APPLICATION OR BY WAY OF APPLICATION FORMS. WHERE A PERSON HAS MADE AN APPLICATION FOR NEW SHARES ON AN APPLICATION FORM, HE SHALL NOT MAKE AN APPLICATION FOR THE NEW SHARES BY WAY OF AN ATM APPLICATION.



6. The Applicant irrevocably agrees and acknowledges that his ATM Application is subject to risks of electrical, ATM, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks, the Company and the Manager and if, in any such event, the Participating Banks and/or our Company and/or the Manager do not record or receive the Applicant's ATM Application, or data relating to the Applicant's ATM Application or the tape or any other devices containing such data is lost, corrupted, destroyed or not otherwise accessible, whether wholly or partially for whatever reason, the Applicant shall be deemed not to have made an ATM Application and the Applicant shall have no claim whatsoever against the Participating Banks, our Company or the Manager for the Offer Shares applied for or for any compensation, loss or damage.
7. Applications for Offer Shares by way of ATM Applications shall close at 12.00 noon on 4 June 2001 or such other time as the Directors may in their absolute discretion, decide. Subject to the paragraph above, an ATM Application for Offer Shares is deemed to be received only upon its completion, that is, when there is an on-screen confirmation of the application.
8. All particulars of the Applicant in the records of his Participating Bank at the time he makes his ATM Application for Offer Shares shall be deemed to be true and correct and the relevant Participating Bank and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in the particulars of the Applicant after the time of the making of his ATM Application, the Applicant shall promptly notify his Participating Bank.
9. The Applicant must have sufficient funds in his bank account(s) with his Participating Bank at the time he makes his ATM Application for Offer Shares, failing which his ATM Application for Offer Shares will not be completed or accepted. Any ATM Applications for Offer Shares which does not strictly conform to the instructions set out in this Prospectus or on the screens of the ATM of the relevant Participating Bank through which that application was made will be rejected.
10. **No application will be kept in reserve.** Where an ATM Application for Offer Shares is not accepted, it is expected that the full amount of the application monies will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to the Applicant by being automatically credited to the Applicant's bank account with the relevant Participating Bank within three Market Days after the close of the Application List. **Trading on a "when issued" basis, if applicable, is expected to commence after such refund has been made.** Where an ATM Application for Offer Shares is rejected or accepted in part only, the full amount or the balance of the application monies will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to the Applicant by being automatically credited to the Applicant's bank account with his Participating Bank within 14 days after the close of the Application List.

The responsibility for timely refund of application monies arising from unsuccessful or partially successful ATM Application lies solely with the respective Participating Banks. Therefore, Applicants are strongly advised to consult their respective Participating Banks regarding the status of their ATM Applications and/or refund of application monies to them arising from their unsuccessful or partially successful ATM Applications, to determine the exact number of Shares, if any, which have been allotted to them. Neither the SGX-ST, CDP, SCCS, the Participating Banks, our Company nor the Manager assumes any responsibility for any loss which may be incurred as a result of Applicants having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.

If the Applicant's ATM Application is made through the ATMs (DBS Bank, OCBC and Keppel-Tatlee Bank) and is unsuccessful, no notification will be sent by the relevant Participating Bank.

Applicants who make ATM Applications through the ATMs of the following banks may check the provisional results of their ATM Applications as follows:-

Bank	Telephone	Available at ATM/Internet	Operating Hours	Service expected from
DBS Bank	1800-222 2222 327 4767	Internet Banking or Internet Kiosk www.dbs.com	24 hours a day	7.00 p.m. on the balloting day
KTB	222 8228	ATM	ATM — 24 hours a day Phone Banking: Mon-Fri 0800-2200 Sat 0800-1500	ATM — Evening of the balloting day Phone Banking: 8.00 a.m. on the day after the balloting day
OCBC	1800-363 3333	ATM	ATM — 24 hours a day Phone Banking: 24 hours a day	Evening of the balloting day

11. In consideration of our Company making available the ATM Application facility, through the ATMs of the relevant Participating Banks and agreeing to close the Application List at 12.00 noon on 4 June 2001 or such later time or date as the Directors may in their absolute discretion decide, and by making and completing an ATM Application, the Applicant agrees that:-
- (a) his ATM Application is irrevocable; and
 - (b) his ATM Application, the acceptance of his ATM Application by our Company and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and he irrevocably submits to the non-exclusive jurisdiction of the Singapore courts.
 - (c) neither our Company, the Manager nor the Participating Banks shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to his ATM Application to the Company or CDP due to a breakdown or failure of transmission, delivery or communication facilities or any risks referred to in paragraph 6 on page 120 of this Prospectus or to any cause beyond their respective controls;
 - (d) he will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of his application;
 - (e) in respect of the Offer Shares for which his ATM Application has been successfully completed and not rejected, acceptance of the Applicant's ATM Application shall be constituted by written notification by or on behalf of our Company and not otherwise, notwithstanding any payment received by or on behalf of our Company; and
 - (f) in making his application, reliance is placed solely on the information contained in this Prospectus and that neither our Company, the Manager, the Underwriter, the Placement Agent nor any other person involved in the Invitation shall have any liability for any information not so contained.



12. The Applicant should ensure that his personal particulars as recorded by both CDP and the relevant Participating Banks are correct and identical. Otherwise his ATM Application may be rejected. The Applicant should promptly inform CDP of any change in his address, failing which the notification letter on successful allotment and/or allocation will be sent to his address last registered with CDP.
13. The existence of a trust will not be recognised. Any ATM Application by a person must be made in his/their own name(s) and without qualification. Our Company will reject any application by any person acting as nominee.

Instructions for an Applicant using ATM Application will appear on the ATM screens and the relevant Participating Banks.

Steps for an ATM Application through ATMs of DBS Bank (including its POSBank Services division)

For illustrative purposes, the steps for making an ATM Application through a DBS Bank or POSBank ATM are shown below. Certain words appearing on the screen are in abbreviated form (“A/c”, “amt”, “appln”, “&”, “I/C” and “No.” refer to “Account”, “amount”, “application”, “and”, “NRIC” and “Number” respectively). Instructions for ATM Applications on the ATM screens of Participating Banks (other than DBS Bank (including its POSBank Services division)) may differ slightly from those represented below.

- Step 1: Insert your personal DBS or POSBank ATM Card.
- 2: Enter your Personal Identification Number
- 3: Select “CASHCARD & MORE SERVICES”
- 4: Select “ESA-IPO SHARE/BOND/RIGHTS”
- 5: Select “ATM SECURITY APPLN (IPO-SHARE/BOND)” to “COLORLND”
- 6: Press the “ENTER” key to acknowledge:–
 - **You have read, understood & agreed to all terms of the appln & the Prospectus/Document**
 - **You consent to disclose your name, I/C No., address, nationality, CDP Securities A/c No., CPF Investment A/c No. & security appln amount from your bank account(s) to share registrars, SCCS, CDP, CPF, issuer**
 - **For FIXED price security appln, this is your only appln and it is made in your own name and at your own risk**
 - **For TENDER security appln, this is your only appln at the selected tender price and it is made in your own name and at your own risk**
 - **You are not a US Person as referred to in the Prospectus/Document where applicable**
- 7: Select your nationality
- 8: Select the DBS Bank account (Autosave/Current/Savings/Savings Plus) or the POSBank account (Current/Savings) from which to debit your application monies
- 9: Enter the number of shares/securities you wish to apply for using cash

- 10: Enter your own 12-digit CDP Securities Account number or press “Enter” to confirm if your CDP Securities Account number is correct. (If your CDP Securities Account number has already been stored in the DBS Bank’s or POSBank’s records)
- 11: Check the details of your securities application, your CDP Securities Account number on the screen and press the “ENTER” key to confirm application
- 12: Remove the Transaction Record for your reference and retention only

B. Application for Internet Placement Shares by way of Internet Application

Applicants of Internet Placement Shares (a) must not be corporations, sole-proprietorships, partnerships or any other non-corporate entities; (b) must be over the age of 21 years; (c) must not be undischarged bankrupts; (d) must apply for the Placement Shares in Singapore; and (e) must be customers who maintain Internet trading accounts with the Internet Stockbroker.

The steps for application for Internet Placement Shares through the Internet IPO Website of Vickers Ballas (the “Vickers Steps”) set out the actions that the Applicant must take at the Internet IPO Website of Vickers Ballas to complete an Internet Application. Upon completion of his Internet Application through the Internet IPO Website of Vickers Ballas, there will be an on-screen confirmation record (“Confirmation Record”) of the application which can be printed out by the Applicant for his record. This printed Confirmation Record is for the Applicant’s retention and should not be submitted with any printed Application Form.

An Applicant must ensure that he enters his own sign-on name, personal identification number or password, as the case may be, when logging on to the Internet IPO Website. Using another person’s sign-on name, personal identification number or password, as the case may be, when logging into the Internet IPO Website, will render his application liable to be rejected.

An Applicant must ensure, when making an Internet Application, that the mailing address of his account selected for the application is in Singapore and the application is being made in Singapore. Otherwise his application is liable to be rejected. In this connection, the Applicant will be asked to declare that he is in Singapore at the time when he makes his application. An Applicant making an application through an Internet IPO Website must ensure and declare that the application is made in Singapore otherwise his application is liable to be rejected.

An Internet Application shall be made in accordance with, and subject to, the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing here as well as those set out under the section on “Terms and Conditions and Procedures for Application” found on pages 111 to 114 of this Prospectus, as well as the Memorandum of Association and Bye-laws of our Company.

1. In connection with his Internet Application for the Internet Placement Shares, the Applicant is required to confirm statements to the following effect in the course of activating the Internet Application:–
 - (a) that he has received a copy of this Prospectus and/or has read, understood and agreed to all the terms and conditions of application for the Internet Placement Shares and this Prospectus prior to effecting the Internet Application and agrees to be bound by the same;
 - (b) that he consents to the disclosure of his name, NRIC or passport number, address, nationality and permanent resident status, CDP Securities Account number, and share application amount (the “Relevant Particulars”) from his account with the Internet Stockbroker, as the case may be, to the Singapore Share Transfer Agent, SCCS, CDP, our Company, the Placement Agent and the Manager (the “Relevant Parties”); and
 - (c) that the application is his only application for the Placement Shares and it is made in his name and at his own risk.



His application will not be successfully completed and cannot be recorded as a completed transaction unless he clicks “Confirm” or “I Agree” or “OK” or “Continue” or “Yes” or any other relevant button on the Internet IPO Website screen. By doing so, the Applicant shall be treated as signifying his confirmation of each of the above statements. In respect of statement 1(b) above, his confirmation shall signify and shall be treated as his written permission, given in accordance with the relevant laws of Singapore, including Section 47(4) of the Banking Act (Chapter 19) of Singapore (where applicable), to the disclosure by the Internet Stockbroker of the Relevant Particulars of his account(s) to the Relevant Parties.

2. An Applicant who makes an application to subscribe for the Internet Placement Shares through the Internet IPO Website will be advised by the Internet Stockbroker as to the mode of payment for the Internet Placement Shares applied for.
3. The Applicant irrevocably agrees and undertakes to subscribe for and to accept such number of Internet Placement Shares that may be allotted to him in respect of his Internet Application which shall be not more than the number of Internet Placement Shares applied for as stated on the Confirmation Record. In the event that our Company decides not to allot any Placement Shares or to allot any lesser number of such Placement Shares to the Applicant, the Applicant agrees to accept the decision as final. If the Applicant’s Internet Application is successful, his confirmation (by his action of clicking “Confirm” or “I Agree” or “OK” or “Confirm” or “Yes” or any other relevant button on the Internet IPO Website screen) of the number of Internet Placement Shares applied for shall signify and shall be treated as his acceptance of the number of Internet Placement Shares that may be allotted to him and his agreement to be bound by the Memorandum of Association and Bye-laws of our Company.
4. The Applicant irrevocably requests and authorises our Company to:–
 - (a) register the Placement Shares allotted to him in the name of GDP for deposit into his Securities Account; and
 - (b) send the relevant Share certificate(s) to GDP.
5. **BY MAKING AN INTERNET APPLICATION, THE APPLICANT CONFIRMS THAT HE IS NOT APPLYING FOR THE INTERNET PLACEMENT SHARES AS NOMINEE OF ANY OTHER PERSON AND THAT ANY INTERNET APPLICATION THAT HE MAKES IS THE ONLY APPLICATION FOR PLACEMENT SHARES.**

MULTIPLE APPLICATIONS ARE NOT ALLOWED.

6. The Applicant irrevocably agrees and acknowledges that his Internet Application is subject to risks of electrical, ATM, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Internet Stockbroker, our Company, the Manager and the Placement Agent and if, in any such event, the Internet Stockbroker and/or our Company and/or the Manager and/or the Placement Agent do not record or receive the Applicant’s Internet Application, or data relating to the Applicant’s Internet Application or the tape or any other devices containing such data is lost, corrupted, destroyed or not otherwise accessible, whether wholly or partially for whatever reason, the Applicant shall be deemed not to have made an Internet Application and the Applicant shall have no claim whatsoever against the Internet Stockbroker, our Company, the Placement Agent or the Manager for the Placement Shares applied for or for any compensation, loss or damage.
7. **As the Internet IPO Website gateway of an Internet Stockbroker may close before 12.00 noon on 4 June 2001, Applicants are requested to liaise with their Internet Stockbroker regarding the last date and time the Internet Stockbroker is accepting application through the Internet IPO Website.**

Subject to the preceding paragraph, Internet Applications shall close at 12.00 noon on 4 June 2001 or such other date and time as our Company may, in consultation with the Manager, decide. Subject to paragraph 6 above, an Internet Application is deemed to be effected when it enters the designated information system of the Internet Stockbroker.

8. All particulars of the Applicant in the records maintained with the Internet Stockbroker at the time he makes his Internet Application shall be deemed to be true and correct and our Company, the Internet Stockbroker and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in the particulars of the Applicant after the time of the making of his Internet Application, the Applicant shall promptly notify our Company and his Internet Stockbroker, as the case may be.
9. Any Internet Application, which does not strictly conform to the instructions set out in this Prospectus and the Internet IPO Website will be rejected.
10. **No reserve applications will be kept.** Where an application to subscribe for Internet Placement Shares through an Internet Stockbroker is not accepted or accepted in part only, it is expected that the full amount or the balance of the application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to the Applicant by ordinary post or such other means as the Internet Stockbroker may agree with such Applicant, at the risk of such Applicant, within three Market Days after the close of the Application List provided that the remittance in respect of such application which has been presented for payment or other processes has been honoured and the application monies received in the designated share issue account.

It is expected that successful applicants who applied for Internet Placement Shares through the Internet IPO Website of the Internet Stockbroker will be notified of the results of their application by way of an e-mail notification no later than the evening of the day immediately prior to the commencement of trading of the Shares on SGX-ST.

11. In consideration of our Company making available the Internet Application facility through the Internet IPO Website of the Internet Stockbroker and by making and completing an Internet Application, the Applicant agrees that:-
 - (a) his Internet Application is irrevocable;
 - (b) the aggregate amount of the Issue Price in respect of the Placement Shares applied for by the Applicant is due and payable to our Company forthwith;
 - (c) neither our Company, the Manager, the Placement Agent or the Internet Stockbroker shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to his Internet Application to our Company or CDP due to a breakdown or failure of transmission, delivery or communication facilities or any risks referred to in paragraph 6 on page 120 of this Prospectus or to any cause beyond their respective controls;
 - (d) he will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of his application;
 - (e) in respect of the Internet Placement Shares for which his Internet Application has been successfully completed and not rejected, acceptance of the Applicant's Internet Application shall be constituted by written notification by or on behalf of us and not otherwise, notwithstanding any payment received by or on behalf of us;
 - (f) in making his application, reliance is placed solely on the information contained in the Prospectus and that neither our Company, Vickers Ballas nor any other person involved in the Invitation shall have any liability for any information not so contained; and
 - (g) his Internet Application, the acceptance of his Internet Application by our Company and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and he irrevocably submits to the non-exclusive jurisdiction of the Singapore courts.



12. The Applicant should ensure that his personal particulars as recorded by CDP and the Internet Stockbroker are correct and identical. Otherwise his Internet Application may be rejected. The Applicant should promptly inform CDP of any change in his address, failing which the notification letter on successful allotment will be sent to his address last registered with CDP.
13. The existence of a trust will not be recognised. Any Internet Application by a person must be made in his/their own name(s) and without qualification. Our Company will reject any application by any person acting as nominee.

Steps for Application for Internet Placement Shares through the Internet IPO Website of Vickers Ballas

For illustrative purposes, the steps for making an application through the Internet IPO Website of Vickers Ballas are shown below.

- Step 1: Access the Vickers Ballas Internet IPO Website at “www.vb.com.sg”
- 2: Click on to the IPO hyperlink
 - 3: Login with user ID and password
 - 4: Click “Yes” to confirm, *inter alia*, that you are in Singapore
 - 5: Select COLORLAND IPO by clicking on COLORLAND IPO hyperlink
 - 6: Click “I Agree” to confirm, *inter alia*:–
 - (a) You have read a copy of this Prospectus and understood and agreed to all the terms and conditions of application for the Placement Shares and this Prospectus prior to effecting the Internet Application and agree to be bound by the same.
 - (b) You consent to the disclosure of your name, NRIC or passport number, address, nationality and permanent resident status, CDP Securities Account Number, CPF Investment Account number (if applicable) and share application amount from your account with Vickers Ballas to the Singapore Share Transfer Agent, SCCS, CDP, CPF, the issuer and the Manager.
 - (c) This application is your only application for the Shares and it is made in your own name and at your own risk.
 - (d) This application is made in Singapore.
 - (e) You understand that your investments are not deposits or other obligations of or guaranteed or insured by Vickers Ballas and are subject to investment risks, including the possible loss of the principal amount invested.
 - (f) You are not a US Person.
 - (g) You agree that the aggregate amount payable for the Placement Shares applied for is due and payable to the issuer forthwith.
 - 7: Fill in details for share application and click “Next”
 - 8: Check details of your share application and your personal particulars on the screen and click “Place Order” to submit your application
 - 9: Click “Confirm Order” to continue
 - 10: Print page for your reference and retention only

SELECTED BYE-LAWS OF OUR COMPANY

The provisions in the Bye-laws of the Company relating to Directors' remuneration, voting rights on proposals, arrangements and contracts in which the Directors are interested, borrowing powers of Directors, restrictions on the transferability of shareholdings and the voting rights of members are as follows:–

Directors' Fees and Expenses

Bye-law 95

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the general meeting, and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day.

Bye-law 96

Each Director shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board 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 his duties as a Director.

Bye-law 97

- (1) 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.
- (2) The remuneration (including any remuneration under Bye-law 97(1) above) in the case of a Director other than an executive Director shall be payable by a fixed sum and shall not at any time be by commission on or percentage of the profits or turnover, and no director whether an executive Director or otherwise shall be remunerated by a commission on or percentage of turnover.

Bye-law 98

The Board shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).



Bye-law 99

A Director may:–

- (a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and, subject to the relevant provisions of the Act, upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Bye-law; and/or
- (b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director; and/or
- (c) continue to be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless otherwise agreed) no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Bye-laws the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) or voting or providing for the payment of remuneration to the director, managing director, joint managing director, deputy managing director, executive director, manager or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Executive Directors

Bye-law 90

Notwithstanding Bye-laws 95, 96, 97 and 98, an executive director appointed to an office under Bye-law 89 hereof shall receive such remuneration (whether by way of salary, commission, 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 determine, and either in addition to or in lieu of his remuneration as a Director, but he shall not in any circumstances be remunerated by a commission on or a percentage of turnover.

Alternate Directors

Bye-law 92

An alternate Director shall only be a Director for the purposes of the Act and shall only be subject to the provisions of the Act insofar as they relate to the duties and obligations of a Director when performing the functions of the Director for whom he is appointed in the alternative and shall alone be responsible to the Company for his acts and defaults and shall not be deemed to be the agent of or for the Director appointing him. An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified by the Company to the same extent *mutatis mutandis* as if he were a Director but he shall not be entitled to receive from the Company any fee in his capacity as an alternate Director except only such part, if any, of the remuneration otherwise payable to his appointor as such appointor may by Notice to the Company from time to time direct.

Directors' Voting Rights on Proposals, Arrangements and Contracts in which Directors are interested

Bye-law 102

- (1) 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 any other proposal in which he is to his knowledge materially interested, but this prohibition shall not apply to any of the following matters namely:–
 - (a) any contract or arrangement for the giving to such Director any security or indemnity in respect of money lent by him or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (b) any contract or arrangement for the giving 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;
 - (c) 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 sub-underwriting of the offer;
 - (d) any contract or arrangement in which he 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;
 - (e) 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 the Designated Stock Exchange) is beneficially interested in (other than through his interest (if any) in the Company) five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest is derived); or
 - (f) 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.
- (2) A company shall be deemed to be a company in which a Director owns five (5) per cent. or more if and so long as (but only if and so long as) he and his associates (as defined by the rules, where applicable, of the Designated Stock Exchange), (either directly or indirectly) are the holders of or beneficially interested in (other than through his interest (if any) in the Company) five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which the Director's interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder.
- (3) Where a company in which a Director together with his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) holds five (5) per cent. or more is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.



- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

Borrowing Powers

Bye-law 109

The Board may exercise all the powers of the Company to raise or borrow money and 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 Act, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Restrictions on Transferability of Shares

Bye-law 46

Subject to these Bye-laws, any Member may transfer all or any of his shares by an instrument of transfer in the form for the time being approved by the Designated Stock Exchange or where the Company is no longer listed on the Designated Stock Exchange, in any other form acceptable to the Board.

Bye-law 47

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that an instrument of transfer in respect of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository and provided further that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. Nothing in these Bye-laws shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

Bye-law 48

- (1) The Board may, in its absolute discretion, 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, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four (4) joint holders (except in the case of executors or trustees of a deceased shareholder) or a transfer of any share (not being a fully paid up share) on which the Company has a lien.
- (2) No transfer shall be made to an infant or to a person of unsound mind or under other legal disability.

- (3) 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 Register to any branch register or any share on any branch register to the Register or any other branch register. In the event of any such transfer, the shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.
- (4) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement the Board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place in Bermuda at which the Register is kept in accordance with the Act.
- (5) Save as provided in the Bye-laws, there shall be no restriction on the transfer of fully paid up shares (except where required by law, or the listing rules of the Designated Stock Exchange).

Bye-law 49

Without limiting the generality of the last preceding Bye-law, the Board may decline to recognise any instrument of transfer unless:-

- (a) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is lodged at the Office or such other place in Bermuda at which the Register is kept in accordance with the Act or the Registration Office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor 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); and
- (d) if applicable, the instrument of transfer is duly and properly stamped.

Bye-law 50

If the Board refuses to register a transfer of any share, it shall, within one (1) month after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal, stating the facts which are considered to justify the refusal.

Bye-law 51

The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.



Voting Rights of Members

Bye-law 65

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Bye-laws, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a representative duly authorised under Section 78 of the Act), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder or which he represents and in respect of which all calls due to the Company have been paid, but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall 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:–

- (a) by the chairman of such meeting; or
- (b) by 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
- (c) by 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 representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by 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 up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.

Bye-law 66

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution.

Bye-law 67

If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

Bye-law 68

A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.

Bye-law 69

The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

Bye-law 70

On a poll votes may be given either personally or by proxy.

Bye-law 71

A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

Bye-law 72

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.

Bye-law 73

Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding. Several executors or administrators of a deceased Member in whose name any share stands shall for the purposes of this Bye-law be deemed joint holders thereof.

Bye-law 74

- (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.
- (2) Any person entitled under Bye-law 53 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight (48) hours at least before the time of the holding of the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his entitlement to such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof.

Bye-law 75

No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.



Bye-law 76

If:-

- (a) any objection shall be raised to the qualification of any voter; or
- (b) any votes have been counted which ought not to have been counted or which might have been rejected; or
- (c) any votes are not counted which ought to have been counted;

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.

Bye-law 77

- (1) Any Member entitled to attend and vote at a meeting of the Company who is the holder of two or more shares shall be entitled to appoint not more than two proxies to attend and vote instead of him at the same general meeting provided that if the Member is the Depository:-
 - (a) the Depository may appoint more than two proxies to attend and vote at the same general meeting and each proxy shall be entitled to exercise the same powers on behalf of the Depository as the Depository could exercise, including, notwithstanding Bye-law 65, the right to vote individually on a show of hands;
 - (b) the Company shall be entitled and bound:-
 - (i) to reject any instrument of proxy lodged if the proxy first named in that instrument, being the Depositor, is not shown in the records of the Depository as at a time not earlier than forty-eight (48) hours prior to the time of the relevant general meeting supplied by the Depository to the Company, to have any shares credited to a Securities Account; and
 - (ii) to accept as the maximum number of votes which in aggregate all the proxies appointed by the Depository in respect of a particular Depositor are able to cast on a poll a number which is the number of shares credited to the Securities Account of that Depositor, as shown in the records of the Depository as at a time not earlier than forty-eight (48) hours prior to the time of the relevant general meeting supplied by the Depository to the Company, whether that number is greater or smaller than the number specified in any instrument of proxy executed by or on behalf of the Depository; and
 - (iii) the Company shall accept as valid in all respects the form of proxy approved by the Depository (the "CDP Proxy Form") for use at the date relevant to the general meeting in question notwithstanding that the same permits the Depositor concerned to nominate a person or persons other than himself as the proxy or proxies appointed by the Depository. The Company shall be entitled and bound, in determining rights to vote and other matters in respect of a completed CDP Proxy Form submitted to it, to have regard to the instructions given by and the notes (if any) set out in the CDP Proxy Form.
- (2) In any case where a form of proxy appoints more than one proxy (including the case where such appointment results from a nomination by a Depositor), the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.
- (3) A proxy need not be a Member. In addition, subject to sub-paragraph (1) of this Bye-law, 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.

Variation of Class Rights

Bye-law 10

Whenever the share capital of the Company is divided into different classes of shares, subject to the provisions of the Statutes, preference capital other than redeemable preference capital may be repaid and the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so repaid, varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate general meeting and all adjournments thereof all the provisions of these Bye-laws relating to general meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum (other than at an adjourned meeting) shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class and at any adjourned meeting of such holder, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him, provided always that where the necessary majority for such a special resolution is not obtained at such general meeting, consent in writing if obtained from the holders of three-quarters in nominal value of the issued shares of the class concerned within two months of such general meeting shall be as valid and effectual as a special resolution carried at such general meeting. The foregoing provisions of this Bye-law shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the special rights whereof are to be varied.

Bye-law 11

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.



SUMMARY OF BERMUDA COMPANY LAW

Set out below is a summary of certain aspects of 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 Bermuda 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 Bermuda 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.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (i) and (iii) above respectively.

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 Bermuda 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 Bermuda 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.

(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 Bermuda 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 Bermuda 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 Bermuda 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 Bermuda 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 by-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 company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if 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 Bermuda 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 Bermuda Act requires that every officer should comply with the Bermuda Act, regulations passed pursuant to the Bermuda Act and the by-laws of the company.

(g) Accounting and auditing requirements

The Bermuda 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 Bermuda 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 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 Bermuda Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify 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.

(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 per cent. 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 Bermuda 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.

(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 Bermuda 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.

TAXATION

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and Bermuda and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as at the date of this Prospectus, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion is limited to a general description of certain tax consequences in Singapore and Bermuda with respect to ownership of the Shares by Singapore investors, and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase the Shares. Prospective investors should consult their tax advisers regarding Singapore and Bermuda tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither the Company, the Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Shares. It is expected that dividends payable by the Company on the Shares will be declared in HK Dollars and will be converted into Singapore Dollars before being paid to Singapore-based shareholders.

BERMUDA TAXATION

The Company is incorporated in Bermuda. Dividends remitted to shareholders resident outside Bermuda will not be subject to withholding tax. Please also refer to paragraph (j) of Appendix 3 to this Prospectus.

SINGAPORE TAXATION

Cash Dividends

Foreign source dividends paid to a Singapore resident individual will only be liable to tax in Singapore to the extent that they are received or deemed received in Singapore. The rate of tax will vary according to the individual's circumstances but is subject to a current maximum rate of 26%.

Dividends paid by a foreign company to a company in Singapore will only be liable to tax to the extent that they are received or deemed received in Singapore, subject as provided below.

Save as mentioned herein, dividend received through the CDP system by investors who are not resident in Singapore will effectively not be subject to tax in Singapore. Where a non-resident company or a non-resident body of persons has a presence in Singapore, dividends received through the CDP system by such an investor may be subject to tax in Singapore if the dividends are in respect of investments made through its Singapore presence, or the dividends are otherwise connected with its Singapore presence. Corporate tax in Singapore is currently at 24.5%.

There is currently no tax treaty between Singapore and Bermuda.

Bonus issues and scrip dividends

Under current Singapore tax law and practice, a capitalization of profits followed by the issue of new shares, credited as fully paid, pro rata to shareholders ("bonus issue") does not represent a distribution of dividends by a company to its shareholders. Therefore, a Singapore resident shareholder receiving shares by way of a bonus issue should not have a liability to Singapore tax.

When a dividend is to be satisfied wholly or in part in the form of an allotment of ordinary shares credited as fully paid, the dividend declared will be treated as income subject to Singapore tax. Similarly, when shareholders are given the right to elect to receive an allotment of ordinary shares credited as fully paid in lieu of cash, the dividend declared will be treated as dividend income and be subject to Singapore tax.

Capital gains

There is no tax on capital gains in Singapore. However, the acquisition and disposal of investments by certain investors, in particular financial institutions, may be part of their normal business activities and, in these circumstances, the gains or losses arising may be taken into account for tax purposes.

Stamp duty

There is no stamp duty payable in respect of the issuance and holding of the Shares. Where existing Shares evidenced in certificated form are acquired in Singapore, stamp duty is payable on the instrument of transfer of the Shares at the rate of \$2 for every \$1,000 of the consideration for, or market value of, the Shares, whichever is higher. The stamp duty is borne by the purchaser unless there is an agreement to the contrary. Where an instrument of transfer is executed outside Singapore or no instrument of transfer is executed, no stamp duty is payable on the acquisition of the Shares. Stamp duty may be payable if the instrument of transfer is received in Singapore.

Goods and Services Tax ("GST")

The sale of the Shares by an investor belonging in Singapore through an SES member or to another person belonging in Singapore is an exempt sale not subject to GST. Any GST directly or indirectly incurred by the investor in respect of this exempt sale will become an additional cost to the investor.

Where the Shares are sold by the investor to a person belonging outside Singapore, the sale is generally a taxable sale subject to GST at zero-rate. Any GST incurred by a GST-registered investor in the making of this supply in the course of furtherance of a business is claimable as a refund from the Comptroller of GST.

Services such as brokerage, handling and clearing services rendered by a GST-registered person to an investor belonging in Singapore in connection with the investor's purchase, sale or holding of the Shares will be subject to GST at the current rate of 3%. Similar services rendered to an investor belonging outside Singapore are subject to GST at zero-rate.

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