

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2005

### 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors, the Company's ultimate holding company is Sunni International Limited, a company which is incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 32 and 17 respectively.

### 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS(s)") (herein collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning from or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March 2005.

The Group has considered these new HKFRSs and identified that the following new HKFRSs may have a material effect on how the results of operations and financial position of the Group are presented:

#### HKFRS 2 "Share-based Payment"

In April 2004, the HKICPA issued HKFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of directors' and employees' share options of the Company. Currently, the Group does not expense the share options issued by the Company.

The Group intends to take advantage of the transitional provisions set out in HKFRS 2. In relation to share options granted on or before 7th November 2002 and share options granted after 7th November 2002 and vested before 1st January 2005, the Group does not intend to recognise and expense those share options. The Group estimates that the adoption of HKFRS 2 will not have a material impact in the Group's financial statements.

#### HKFRS 3 "Business Combinations"

In August 2004, the HKICPA issued HKFRS 3 "Business Combinations" which is applicable to business combination for which the agreement date is on or after 1st January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March 2005.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**  
(Continued)

HKFRS 3 also requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Currently, the Group amortises the goodwill capitalised on a straight line basis over its useful economic life. The Group estimates that the adoption of HKFRS 3 in the annual period beginning from 1st April 2005 in relation to discontinued goodwill amortisation would result in an increase in the net profit for the year ending 31st March 2006 of approximately HK\$454,000.

In relation to other new HKFRSs, the Group does not expect that their adoption will have a material effect on how the results of operations and financial position are presented.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**Goodwill**

Goodwill arising from consolidation represents the excess cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition of a subsidiary and is recognised as an asset and amortised on a straight-line basis over its estimated economic useful life.

**Investments in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in its associate is stated at the Group's share of the net assets of the associate, less any unrealised profits or identified impairment losses.

**Revenue recognition**

Income from the production of computer graphics ("CG") animation pictures is recognised when the film copy of the relevant productions is delivered and title has been passed. Payments received prior to delivery of the film copy of the relevant productions are recorded as unearned revenue and are classified as current liabilities.

Income from the licensing of the distribution and broadcasting rights over CG animation pictures is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is usually upon delivery of the relevant tapes to the distributors.

Service income is recognised when the services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation, amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives, from the date on which they became fully operational and after taking into account their estimated residual value, using the straight-line method as follows:

Leasehold improvements	Over a period of 5 years
Furniture, fixtures and equipment	Over a period of 5 years
Motor vehicles	Over a period of 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable value of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**CG animation pictures**

CG animation pictures, which represent CG animation pictures in which the Group retains ownership, consist of film rights of completed CG animation pictures and CG animation pictures of which the production is still in progress.

CG animation pictures in progress is stated at production costs incurred to date including borrowing cost capitalised, less impairment losses. Upon completion and release of the CG animation pictures, the costs are amortised on a systematic basis over their estimated useful lives.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**Investments in securities**

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities, which are securities held for an identified long-term strategic purpose, and are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss that is other than temporary.

**Assets held under finance leases**

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the dates of acquisition. The corresponding liabilities to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the periods of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting year.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

**Inventories**

Inventories represent CG animation pictures, in which the Group does not retain any ownership, produced under CG animation pictures production contracts with independent third parties and are stated at the lower of cost and net realisable value. Cost is calculated at estimated cost which will be revised and updated as necessary.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the costs of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Retirement benefit cost

Payments to the defined contribution retirement scheme are charged as expenses as they fall due.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

## Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing at the balance sheet date. Profits and losses arising on exchange are included in income statement for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising from the translation, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

**4. TURNOVER**

Turnover represents the amounts received and receivable for goods sold or services rendered by the Group during the year and is analysed as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Sale of CG animation pictures	<b>86,355</b>	6,240
Income from licensing of CG animation pictures	<b>4,283</b>	1,736
Management consultancy income	<b>10,496</b>	11,236
	<b>101,134</b>	19,212

**5. BUSINESS AND GEOGRAPHIC SEGMENTS**

## Business segments

For management purposes, the Group is organised into two operating divisions during the year. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- CG animation pictures – Production, licensing and sales of CG animation pictures
- Management consultancy services – Provision of management consultancy services

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**5. BUSINESS AND GEOGRAPHIC SEGMENTS (Continued)**

Business segments (Continued)

Segment information about these businesses is presented below.

**INCOME STATEMENT**

For the year ended 31st March 2005

	<b>CG animation pictures HK\$'000</b>	<b>Management consultancy services HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>TURNOVER</b>			
External sales	<b>90,638</b>	<b>10,496</b>	<b>101,134</b>
<b>RESULTS</b>			
Segment results	<b>2,035</b>	<b>349</b>	<b>2,384</b>
Other operating income			<b>9,362</b>
Unallocated corporate expenses			<b>(49,699)</b>
Loss from operations			<b>(37,953)</b>
Finance costs			<b>(34)</b>
Share of loss of an associate			<b>(20,735)</b>
Loss before taxation			<b>(58,722)</b>
Taxation			<b>(71,595)</b>
Loss before minority interests			<b>(130,317)</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5. BUSINESS AND GEOGRAPHIC SEGMENTS (Continued)

Business segments (Continued)

## BALANCE SHEET

At 31st March 2005

	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	128,269	1,586	129,855
Interest in an associate			–
Unallocated corporate assets			172,420
Consolidated total assets			<u>302,275</u>
LIABILITIES			
Segment liabilities	6,036	–	6,036
Unallocated corporate liabilities			95,771
Consolidated total liabilities			<u>101,807</u>

## OTHER INFORMATION

For the year ended 31st March 2005

	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Unallocated items HK\$'000	Consolidated HK\$'000
Capital additions	90,734	–	841	91,575
Depreciation and amortisation	22,158	–	1,577	23,735
Impairment loss recognised in respect of CG animation pictures	15,250	–	–	15,250
Loss on disposal of property, plant and equipment	5,417	–	–	5,417
Allowance on amount due from an associate	–	–	3,488	3,488

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**5. BUSINESS AND GEOGRAPHIC SEGMENTS (Continued)**

Business segments (Continued)

**INCOME STATEMENT**
*For the year ended 31st March 2004*

	CG animation pictures <i>HK\$'000</i>	Management consultancy services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	7,976	11,236	19,212
<b>RESULTS</b>			
Segment results	(9,058)	1,684	(7,374)
Other operating income			8,737
Unallocated corporate expenses			(16,648)
Loss from operations			(15,285)
Finance costs			(7)
Gain on disposal of discontinuing operations			6,812
Share of loss of an associate			(10,123)
Loss before taxation			(18,603)
Taxation			(1,120)
Loss before minority interests			(19,723)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 5. BUSINESS AND GEOGRAPHIC SEGMENTS (Continued)

Business segments (Continued)

## BALANCE SHEET

As at 31st March 2004

	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	130,814	2,289	133,103
Interest in an associate			21,806
Unallocated corporate assets			91,431
Consolidated total assets			<u>246,340</u>
<b>LIABILITIES</b>			
Segment liabilities	17,008	–	17,008
Unallocated corporate liabilities			11,176
Consolidated total liabilities			<u>28,184</u>

## OTHER INFORMATION

For the year ended 31st March 2004

	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Unallocated items HK\$'000	Consolidated HK\$'000
Capital additions	31,257	–	2,053	33,310
Depreciation and amortisation	<u>18,850</u>	<u>–</u>	<u>1,328</u>	<u>20,178</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**5. BUSINESS AND GEOGRAPHIC SEGMENTS (Continued)**

## Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	<b>Total turnover</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
North America	<b>75,123</b>	6,240
Asia Pacific	<b>26,011</b>	12,972
	<b>101,134</b>	19,212

Analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets by geographical area in which the assets are located is as follows:

	<b>Carrying amount of segment assets</b>		<b>Additions to property, plant and equipment and intangible assets</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	<b>150,543</b>	132,717	<b>26,133</b>	22,228
Japan	<b>1,245</b>	9,752	<b>447</b>	–
Malaysia	<b>126,721</b>	102,464	<b>64,571</b>	11,064
United States of America	<b>3,072</b>	227	<b>424</b>	18
Others	<b>20,694</b>	1,180	–	–
	<b>302,275</b>	246,340	<b>91,575</b>	33,310

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 6. LOSS FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments ( <i>note 9</i> )	15,516	10,171
Other staff costs	61,840	32,842
Total staff costs	77,356	43,013
Less: amounts capitalised in CG animation pictures and inventories	(46,757)	(21,281)
	30,599	21,732
Depreciation and amortisation of property, plant and equipment	9,795	6,238
Less: amounts capitalised in CG animation pictures and inventories	(8,711)	(5,364)
	1,084	874
Rentals in respect of premises under operating leases	4,379	1,992
Less: amounts capitalised in CG animation pictures and inventories	(3,645)	(1,538)
	734	454
Auditors' remuneration:		
Current year	750	640
Underprovision in previous year	20	11
Amortisation of goodwill (included in administrative expenses)	454	454
Amortisation of CG animation pictures (included in cost of sales)	13,486	13,486
Allowance for amount due from an associate	3,488	–
Loss on disposal of property, plant and equipment	5,417	–
Cost of inventories recognised as expenses	56,140	3,342
Tax surcharge ( <i>note 10</i> )	19,683	–
and after crediting:		
Bank interest income	1,451	632
Gain on disposal of investment in securities	7,818	–
Gain on redemption of held-to maturity debt securities	–	5,612
Gain on disposal of property, plant and equipment	–	328
Amortisation of discount on held-to-maturity debt securities	–	2,044

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**7. FINANCE COSTS**

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	<b>33</b>	351
Obligations under finance leases	<b>26</b>	39
	<b>59</b>	390
<i>Less: amounts capitalised in CG animation pictures and inventories</i>	<b>(25)</b>	(383)
	<b>34</b>	7

**8. GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS**

On 23rd August 2002, the Group disposed of its Christmas festive products and leisure furniture businesses to Boto International Holdings Limited ("BIHL") (the "Disposal"). Immediately subsequent to the Disposal, the Group acquired an equity interest in BIHL and thereafter BIHL became an associate of the Group. Pursuant to the relevant Disposal agreements, in the event that BIHL or any of the disposed subsidiaries receives any tax relief or refund of any tax paid which is referable to the above disposed businesses and to any period prior to 23rd August 2002, BIHL or such respective subsidiary shall pay to the Group a sum equal to such tax relief or refund. During the year ended 31st March 2004, an aggregate amount of approximately HK\$6,812,000 in respect of such refund of tax was received and receivable by the Group, and such amount had been recognized in that year as a further gain on the Disposal.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the directors and the five highest paid employees' emoluments are as follows:

## (a) Directors' emoluments

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Executive directors		
– Fees	–	–
– Salaries and other benefits	14,508	9,513
– Contribution to retirement benefit scheme	50	38
Non-executive director		
– Fee	90	180
Independent non-executive directors		
– Fees	728	360
– Other emoluments	140	80
	<b>15,516</b>	<b>10,171</b>

The emoluments of the directors were within the following bands:

	2005 Number of Directors	2004 Number of Directors
HK\$Nil to HK\$1,000,000	6	4
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	–

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**

## (b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2004: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2004: two) highest paid individuals are as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Salaries and other benefits	<b>5,819</b>	4,114
Retirement benefit scheme contributions	–	12
	<b>5,819</b>	4,126

The emoluments of the above two (2004: two) employees are within the following bands:

	<b>2005</b> <b>Number of</b> <b>Employees</b>	2004 Number of Employees
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	–



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10. TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
The Company and its subsidiaries		
– Current tax	44	18
– Overprovision in prior years	(3,417)	–
– Underprovision in prior years ( <i>note</i> )	73,917	–
	<u>70,544</u>	<u>18</u>
Overseas tax		
The Company and its subsidiaries		
– Current tax	115	316
– Overprovision in prior year	(135)	–
Associate	1,323	786
	<u>1,303</u>	<u>1,102</u>
Deferred tax attributable to an associate	(252)	–
Total	<u>71,595</u>	<u>1,120</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years. Overseas tax is calculated at the tax rates prevailing in the respective jurisdictions.

A portion of the Group's profit neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

The movement in deferred taxation is set out in note 22.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**10. TAXATION (Continued)**

The taxation for the year can be reconciled to the loss before taxation as set out in the consolidated income statement as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss before taxation	<b>(58,722)</b>	(18,603)
Tax at the Hong Kong Profits Tax rate of 17.5%	<b>(10,276)</b>	(3,256)
Tax effect of expenses not deductible for tax purposes	<b>20,561</b>	3,788
Tax effect of income not taxable for tax purposes	<b>(17,418)</b>	(3,361)
Tax effect of tax losses not recognised	<b>3,617</b>	1,239
Underprovision for Hong Kong Profits Tax in prior years, net	<b>70,500</b>	–
Overprovision for overseas tax in prior years	<b>(135)</b>	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>46</b>	152
Tax effect of share of result of an associate	<b>4,700</b>	2,558
Taxation for the year	<b>71,595</b>	1,120

*Note:*

Certain overseas subsidiaries and a former overseas subsidiary of the Company (collectively the “Subsidiaries”) are under a tax audit by the Hong Kong Inland Revenue Department (“IRD”). The Company’s management had been of the opinion that the profits of the Subsidiaries should not be subject to Hong Kong Profits Tax as these profits were not derived from or arising in Hong Kong, and the management was prepared to take all necessary actions, including legal proceedings, to defend the Subsidiaries’ position in this regard.

However, having taken into account the precious effort and time of its senior management and the overall interest of the Company and its shareholders, the Company’s management is inclined to negotiate a compromised settlement of the tax audit with the IRD. After various detailed discussions between the Group’s tax advisors and senior tax officers of the IRD, an offer was made to the IRD in early July 2005 for a compromised settlement of the tax audit on the terms that the Subsidiaries will be subject to additional tax liabilities of HK\$73,917,000 for the years of assessments 1994/95 to 2002/03 and a compound penalty of HK\$12,800,000 (the “Offer”). The Offer is currently being considered by the Commissioner of the IRD (“Commissioner”).

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)**10. TAXATION** (Continued)

If the Offer is ultimately accepted by the Commissioner, additional and/or revised tax assessments will be issued to the Subsidiaries and the additional tax liabilities can be offset by (i) the cash amount of HK\$5,000,000 deposited with the IRD, and (ii) the tax reserve certificates of HK\$15,730,000 purchased by the Company. In addition, interest on the tax previously heldover under the estimated assessments amounting to approximately HK\$6,883,000 will also be payable upon settlement.

Based on the progress of negotiation with the IRD on the tax audit as mentioned above, a full provision for additional tax liabilities of HK\$73,917,000 has been made for settling the tax audit. The aggregate amount of compound penalty and interest of HK\$19,683,000 was accrued as tax surcharge and was included in the administrative and other operating expenses for the current year.

**11. DIVIDENDS**

The directors do not recommend the payment of a dividend for the years ended 31st March 2005 and 2004. No dividend was paid in both years.

**12. LOSS PER SHARE**

The calculation of the basic loss per share is based on the loss attributable to shareholders for the year of HK\$130,270,000 (2004: HK\$19,587,000) and on the weighted average number of 220,364,919 (2004: 147,528,555) shares in issue during the year.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for 2005 and 2004 has been adjusted for the effect of the rights issue of the Company on 6th May 2004, details of which are set out in note 23.

No diluted earnings per share is presented as the exercise of share options for the year ended 31st March 2005 and 2004 would result in a decrease in loss per share.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**13. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold improvements</b> <i>HK\$'000</i>	<b>Furniture, fixtures and equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>				
COST				
At 1st April 2004	5,818	36,863	2,847	45,528
Additions	8,988	17,681	–	26,669
Disposals	(5,063)	(4,368)	–	(9,431)
<b>At 31st March 2005</b>	<b>9,743</b>	<b>50,176</b>	<b>2,847</b>	<b>62,766</b>
DEPRECIATION AND AMORTISATION				
At 1st April 2004	1,270	10,100	487	11,857
Provided for the year	1,579	7,700	516	9,795
Eliminated on disposals	(1,679)	(2,330)	–	(4,009)
<b>At 31st March 2005</b>	<b>1,170</b>	<b>15,470</b>	<b>1,003</b>	<b>17,643</b>
NET BOOK VALUES				
<b>At 31st March 2005</b>	<b>8,573</b>	<b>34,706</b>	<b>1,844</b>	<b>45,123</b>
At 31st March 2004	4,548	26,763	2,360	33,671

At 31st March 2005, the net book value of property, plant and equipment of the Group included an amount of approximately HK\$575,000 in respect of motor vehicles (2004: HK\$6,952,000 in respect of furniture, fixtures and equipment and motor vehicles) held under finance leases.

The Company did not have any property, plant and equipment at the balance sheet dates.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 14. CG ANIMATION PICTURES

	Completed CG animation pictures <i>HK\$'000</i>	CG animation pictures in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>			
COST			
At 1st April 2004	40,457	30,921	71,378
Addition during the year	–	64,906	64,906
<b>At 31st March 2005</b>	<b>40,457</b>	<b>95,827</b>	<b>136,284</b>
AMORTISATION AND IMPAIRMENT LOSS			
At 1st April 2004	21,352	–	21,352
Provided for the year	13,486	–	13,486
Impairment loss recognised in income statement	–	15,250	15,250
<b>At 31st March 2005</b>	<b>34,838</b>	<b>15,250</b>	<b>50,088</b>
NET BOOK VALUES			
<b>At 31st March 2005</b>	<b>5,619</b>	<b>80,577</b>	<b>86,196</b>
At 31st March 2004	19,105	30,921	50,026

The amortisation period adopted for completed CG animation pictures is 3 years.

During the year, the directors conducted a review of the Group's CG animation pictures in light of the current market condition with reference to the existing operating plan and budget, impairment loss of HK\$15,250,000 has been identified and recognized in the consolidated income statement accordingly.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**15. GOODWILL**

	<b>THE GROUP</b> <i>HK\$'000</i>
<hr/>	
COST	
<b>At 1st April 2004 and 31st March 2005</b>	<b>4,536</b>
AMORTISATION	
At 1st April 2004	1,283
Provided for the year	454
<b>At 31st March 2005</b>	<b>1,737</b>
NET BOOK VALUES	
<b>At 31st March 2005</b>	<b>2,799</b>
At 31st March 2004	3,253

The amortisation period adopted for goodwill is 10 years.

**16. INTERESTS IN SUBSIDIARIES**

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	<b>85,000</b>	85,000
Amounts due from subsidiaries	<b>101,525</b>	120,770
	<b>186,525</b>	205,770

Details of the Company's subsidiaries at 31st March 2005 are set out in note 32.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within the next twelve months of the balance sheet date and are therefore classified as non-current assets.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 17. INTEREST IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE AND A RELATED COMPANY

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	57,220	79,026
Less: Unrealised gain on disposal of businesses	(57,220)	(57,220)
	—	21,806

Particulars of the Group's principal associate at 31st March 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital held by the Company indirectly	Principal activity
BIHL	Incorporated	British Virgin Islands/ Hong Kong	Ordinary	22.5%	Manufacture and sales of artificial Christmas trees and leisure furniture

**The Group and the Company**

The amount due from an associate is unsecured, interest-free and repayable on demand.

The following details are extracted from the financial statements of the Group's principal associate, BIHL, and its subsidiaries (hereinafter collectively referred to as the "BIHL Group").

	2005 HK\$'000	2004 HK\$'000
<b>RESULTS</b>		
Turnover	1,010,529	1,152,630
Loss from ordinary activities before taxation	(227,273)	(44,990)
Loss from ordinary activities before taxation attributable to the Group (note)	(51,136)	(10,123)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**17. INTEREST IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE AND A RELATED COMPANY (Continued)**

Consolidated financial position of BIHL Group at 31st March 2005 is as follows:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets	<b>657,464</b>	932,594
Current assets	<b>331,909</b>	429,018
Current liabilities	<b>(413,188)</b>	(418,707)
Non-current liabilities	<b>(456,990)</b>	(591,678)
Net assets	<b>119,195</b>	351,227
Net assets attributable to the Group	<b>26,819</b>	79,026

At 31st March 2005, BIHL Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$50,917,000 (2004: HK\$47,798,000). Also, all the assets of BIHL's subsidiaries and its direct investment in its subsidiaries were pledged to the bank for banking facilities granted to BIHL's subsidiaries.

*Note:* The Group's share of the post-acquisition losses of BIHL, to the extent that it exceeds the carrying amount of its equity investment in that company, has been provided for to the extent that the Group has incurred obligations or made payments to satisfy obligations of the associate that the Group has guaranteed.

**18. INVESTMENTS IN SECURITIES**

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost ( <i>note</i> )	–	7,864
Club debentures, at cost	<b>1,201</b>	1,201
	<b>1,201</b>	9,065

*Note:* During the year ended 31st March 2005, the Group disposed of its entire 11.54% equity interest in Kabushiki Kaisha Mad House, a company incorporated in Japan and engaged in the production of CG animation pictures, for a consideration of Japanese Yen 225,000,000 (equivalent to approximately HK\$16,376,000) which resulted in a gain of HK\$7,818,000.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 19. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 30 days to 90 days.

The aged analysis of trade receivables at balance sheet date is stated as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0 to 30 days	–	4,700
31 to 60 days	–	1,579
Over 60 days	<b>1,123</b>	–
Total trade receivables	<b>1,123</b>	6,279
Other receivables	<b>4,175</b>	2,538
	<b>5,298</b>	8,817

## 20. PLEDGED BANK DEPOSITS

At 31st March 2005 and 2004, the amounts represented bank deposits pledged to a bank for the issue of bank guarantees in favour of the IRD for the conditional holdover of the taxes demanded as detailed in note 10, and in favour of a contract party in respect of CG animation production project undertaken by the Group.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**21. OBLIGATIONS UNDER FINANCE LEASES**

	<b>THE GROUP</b>			
	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>2005 HK\$'000</b>	2004 HK\$'000	<b>2005 HK\$'000</b>	2004 HK\$'000
Amounts payable under finance leases:				
Within one year	<b>246</b>	892	<b>238</b>	870
More than one year, but not exceeding two years	<b>123</b>	369	<b>122</b>	356
	<b>369</b>	1,261	<b>360</b>	1,226
Less: future finance charges	<b>(9)</b>	(35)	<b>N/A</b>	N/A
Present value of lease obligations	<b>360</b>	1,226	<b>360</b>	1,226
Less: Amount due within one year and shown under current liabilities			<b>(238)</b>	(870)
Amount due after one year			<b>122</b>	356

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is two years. For the year ended 31st March 2005, the average effective borrowing rate was 2.74% (2004: 2.71%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 22. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior year:

	<b>Accelerated tax depreciation</b>	<b>Recognised tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2003	(1,784)	1,784	–
Effect of change in tax rate (credit) charge to income statement	(167)	167	–
(Credit) charge to income statement	(2,756)	2,756	–
At 31st March 2004	(4,707)	4,707	–
(Credit) charge to income statement	(468)	468	–
<b>At 31st March 2005</b>	<b>(5,175)</b>	<b>5,175</b>	<b>–</b>

At the balance sheet date, the Group had unused tax losses of approximately HK\$81,218,000 (2004: HK\$58,379,000) available for offset against future profits. A deferred tax asset has been recognized in respect of approximately HK\$29,571,000 (2004: HK\$26,897,000) of such losses. No deferred tax has been recognised in respect of the remaining HK\$51,647,000 (2004: HK\$31,482,000) due to the unpredictability of future profit streams.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**23. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Values HK\$'000</b>
<b>Authorised:</b>		
Ordinary shares of HK\$0.50 each at 1st April 2003	200,000,000	100,000
Increase on 29th March 2004 ( <i>note a</i> )	300,000,000	150,000
	<hr/>	<hr/>
Ordinary shares of HK\$0.50 each at 31st March 2004 and 2005	500,000,000	250,000
<b>Issued and fully paid:</b>		
At 1st April 2003	137,637,000	68,819
Exercise of share options ( <i>note b</i> )	236,000	118
	<hr/>	<hr/>
At 1st April 2004	137,873,000	68,937
Rights issue of shares ( <i>note c</i> )	68,936,500	34,468
Exercise of share options ( <i>note d</i> )	1,106,000	553
Placement of shares ( <i>note e</i> )	26,000,000	13,000
	<hr/>	<hr/>
<b>At 31st March 2005</b>	<b>233,915,500</b>	<b>116,958</b>

The movements in the ordinary share capital for the year ended 31st March 2004 were as follows:

- (a) Pursuant to an ordinary resolution passed at the special general meeting held on 29th March 2004, the Company's authorised share capital was increased from HK\$100,000,000 to HK\$250,000,000 by the creation of an additional 300,000,000 shares of HK\$0.50 each.
- (b) The Company issued 100,000 and 136,000 shares of HK\$0.50 each in the Company for cash at HK\$1.060 and HK\$1.246 per share respectively, as a result of the exercise of share options. The shares issued rank pari passu with the then existing shares in all respects.

The movements in the ordinary share capital for the year ended 31st March 2005 were as follows:

- (c) On 6th May 2004, a rights issue on the basis of one share for every two existing shares then held by the shareholders on the register of members on 16th April 2004 was allotted at an issue price of HK\$1.08 per rights share, resulting in the issue of 68,936,500 shares of HK\$0.50 each at HK\$1.08 per share for a total cash consideration, before share issue expenses, of approximately HK\$74.5 million.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 23. SHARE CAPITAL (Continued)

- (d) The Company issued 330,000, 276,000 and 500,000 ordinary shares of HK\$0.50 each in the Company for cash at HK\$0.945, HK\$1.111 and HK\$1.500 per share respectively, as a result of the exercise of share options.
- (e) Pursuant to a placing agreement entered on 19th July 2004, the Company issued 26,000,000 ordinary shares of HK\$0.50 each at a placing price of HK\$1.58 per share. The placing price of HK\$1.58 per share represents a discount of approximately 4.82% to the closing market price of the Company's shares on 15th July 2004. The net proceeds of the placing of approximately HK\$39.7 million were used to fund the Group's CG animation pictures production activities. These new shares were issued under the general mandate granted to the directors at the special general meeting of the Company held on 29th March 2004.

All the shares issued during the period rank pari passu with the then existing shares in all respects.

## 24. RESERVES

	<b>Share premium account</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
THE COMPANY			
Balance at 1st April 2003	170	134,481	134,651
Exercise of share options	157	–	157
Net profit for the year	–	1,699	1,699
Balance at 1st April 2004	327	136,180	136,507
Exercise of share options	816	–	816
Rights issue of shares	39,983	–	39,983
Placement of shares	28,080	–	28,080
Share issue expenses	(4,979)	–	(4,979)
Net loss for the year	–	(117,074)	(117,074)
<b>Balance at 31st March 2005</b>	<b>64,227</b>	<b>19,106</b>	<b>83,333</b>

In the opinion of the Company's directors, the Company's reserves available for distribution to shareholders at 31st March 2005 comprised retained profits of HK\$19,106,000 (2004: HK\$136,180,000).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**25. SHARE OPTION SCHEME**

On 16th August 2002, the Company adopted a share option scheme (the “2002 Scheme”) for the primary purpose of providing incentives to employees, executives or officers, directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers of the Company or any of its subsidiaries (the “Participants”) for their contribution to the Group. The 2002 Scheme will be ending on 15th August 2012. Under the 2002 Scheme, the directors may grant options to the Participants to subscribe for shares in the Company for a consideration of HK\$10 for each lot of share options granted. Options granted must be taken up within 28 days of date of grant. The exercise price is determined by the directors and shall not be less than the highest of:

- (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of the grant which must be a business day;
- (b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and
- (c) the nominal value of a share.

Pursuant to the 2002 Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the issued share capital of the Company as at 16th August 2002. Subject to the approval of the shareholders of the Company in general meeting and such other requirements prescribed under the Listing Rules from time to time, the directors may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meetings. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

At 31st March 2005, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 11,390,000, representing 4.87% of the total number of shares of the Company in issue at that date.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12-month period up to and including the date of grant exceeding 1% of total number of shares in issue at the date of grant. Any further grant of option in excess of this 1% limit shall be subject to the approval of the shareholders in general meetings, such Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 25. SHARE OPTION SCHEME (Continued)

There is no specific requirement that an option must be held for any minimum period before it can be exercised but the directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the directors at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

The following table discloses details of the Company's share option held by employees and directors and movements in such holding during the year:

For the year ended 31st March 2005

Date of grant	Exercisable period	Exercise price per share prior to rights issue HK\$	Exercise price per share after adjustment for the effect of rights issue HK\$	Number of share options					At 31.3.2005
				At 1.4.2004	Granted during the year	Effect of rights issue	Exercised during the year	Lapsed/Cancelled during the year	
Category 1: Employees									
11th February 2003	11th February 2003 to 10th February 2006	1.060 (i)	0.945	1,680,000	-	840,000	(330,000)	(120,000)	2,070,000
11th February 2003	11th February 2003 to 10th February 2008	1.060 (i)	0.945	140,000	-	70,000	-	(60,000)	150,000
13th August 2003	13th August 2003 to 12th August 2006	1.246 (ii)	1.111	4,844,000	-	2,422,000	(276,000)	(720,000)	6,270,000
19th April 2004	19th April 2004 to 18th April 2009	-	1.500	-	2,200,000	-	(500,000)	(100,000)	1,600,000
				6,664,000	2,200,000	3,332,000	(1,106,000)	(1,000,000)	10,090,000
Category 2: Directors									
19th April 2004	19th April 2004 to 18th April 2009	-	1.500	-	1,300,000	-	-	-	1,300,000
Total				6,664,000	3,500,000	3,332,000	(1,106,000)	(1,000,000)	11,390,000

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**25. SHARE OPTION SCHEME (Continued)**

*Note:* Exercise price per share has been adjusted for the effect of the rights issue that took place on 6th May 2004, where appropriate, as follows:

(i) from HK\$1.060 to HK\$0.945; or

(ii) from HK\$1.246 to HK\$1.111

The closing price of the Company's shares immediately before 19th April 2004, the date of grant of the options, was HK\$1.42.

The closing price of the Company's share immediately before the various exercise dates and at the various exercise dates during the year ranged from HK\$1.36 to HK\$1.66.

*For the year ended 31st March 2004*

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				At 31.3.2004
			At 1.4.2003	Granted during the year	Exercised during the year	Cancelled during the year	
11th February 2003	11th February 2003 to 10th February 2006	1.060	2,060,000	–	(100,000)	(280,000)	1,680,000
11th February 2003	11th February 2003 to 10th February 2008	1.060	160,000	–	–	(20,000)	140,000
13th August 2003	13th August 2003 to 12th August 2006	1.246	–	5,320,000	(136,000)	(340,000)	4,844,000
			<u>2,220,000</u>	<u>5,320,000</u>	<u>(236,000)</u>	<u>(640,000)</u>	<u>6,664,000</u>

There was no outstanding share option held by directors on 31st March 2004. No share option was granted to any directors nor did any directors have exercised any options during that year under the 2002 Scheme.

The closing price of the Company's shares immediately before 13th August 2003, the date of grant of the options, was HK\$1.21.

The closing price of the Company's share immediately before the various exercise dates during the year ranged from HK\$1.35 to HK\$1.75.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**25. SHARE OPTION SCHEME** (Continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year ended 31st March 2005 and 2004.

Total consideration received during the year from the participants for taking up the options granted amounted to HK\$60 (2004: HK\$1,100).

**26. MAJOR NON-CASH TRANSACTION**

During the year ended 31st March 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$618,000.

**27. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had the following commitments for capital expenditure in respect of CG animation pictures:

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Authorised but not contracted for	<b>37,033</b>	42,872
Contracted for but not provided in the financial statements	<b>513</b>	689
	<b>37,546</b>	43,561

The Company had no capital commitments at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**28. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	<b>4,248</b>	1,564
In the second to fifth year inclusive	<b>1,844</b>	1,297
	<b>6,092</b>	2,861

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Company had no operating lease commitments at the balance sheet dates.

**29. CONTINGENT LIABILITIES**
**THE GROUP**

At 31st March 2005 and 2004, except for that disclosed in note 10, the Group had no other significant contingent liabilities.

**THE COMPANY**

The Company has given guarantees to banks in respect of general banking facilities granted to its subsidiaries. The amount of such facilities utilised by the subsidiaries at 31st March 2005 was approximately HK\$360,000 (2004: HK\$1,227,000).

**30. RETIREMENT BENEFITS SCHEME**

The Group participates in a Mandatory Provident Fund ("MPF") Scheme established under the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the rules of the MPF Scheme. The assets of the scheme are held separately from those of the Group, in funds under the control of independent trustee. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was approximately HK\$1,989,000 (2004: HK\$1,061,000) and no contributions were forfeited.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 31. RELATED PARTY DISCLOSURES

During the year, the Group had the following transactions with related parties:

Name of related parties	Notes	Nature of transactions	2005 HK\$'000	2004 HK\$'000
Boko Glass Art Company Limited	(i)	Rental expense paid by the Group	880	960
Kayin Insurance Consultants Company	(ii)	Gross insurance premium paid by the Group	367	313
BIHL	(iii)	Management consultancy income received by the Group	10,496	11,236
Boji (Shenzhen) Company Limited	(iv)	Sales of property, plant and equipment by the Group	-	300

## Notes:

- (i) Mr. Kao Cheung Chong, Michael, a director of the Company, has indirect beneficial interests in this company. This transaction was carried out in accordance with the terms of the relevant lease agreements.
- (ii) Mr. Lam Pak Kin, Philip, a director of the Company, and his wife have direct and indirect beneficial interests, respectively, in this company. This transaction was carried out at terms mutually agreed with the relevant parties.
- (iii) BIHL is an associate of the Group. During the year, the Group and BIHL entered into a revised consultancy services agreement. This transaction was carried out in accordance with the terms of the relevant consultancy services agreements.
- (iv) Boji (Shenzhen) Company Limited was a subsidiary of BIHL, an associate of the Group. This transaction was carried out at terms mutually agreed with the relevant parties.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**32. PARTICULARS OF SUBSIDIARIES**

Particulars of the subsidiaries of the Company as at 31st March 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company	Principal activities
			<i>(note (i))</i>	
Diamond Century International Limited	British Virgin Islands	US\$4	100%	Investment holding
Freyner Limited	British Virgin Islands	US\$1,000	100%	Provision of management consultancy services
Highland Fling Inc.	United States of America	US\$5,000	100%	Production management of CG animation pictures
iDream Production Limited	Hong Kong	HK\$2	100%	Provision of CG and special effects production services in respect of pictures
Imagi Animation Studios Limited	Hong Kong	HK\$2	100%	Investment holding and provision of creative services for CG animation pictures
Imagi Character Licensing B.V. (formerly known as Gramori B.V.)	Netherlands	EUR18,151	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Limited	Labuan	US\$100	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Global Distribution Inc.	United States of America	US\$100	100%	Distribution and licensing of intellectual property rights in respect of CG animation pictures

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company	Principal activities
			(note (i))	
Imagi Production Limited	Hong Kong	HK\$28,572	100%	Production of CG animation pictures
Imagi Production (FOTP) Limited	Hong Kong	HK\$2	100%	Production of CG animation pictures
Imagi (IP) Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi (Zentrix) Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi International Japan Company Limited	Japan	JPY30,000,000	82.5%	Provision of marketing services on project licensing and acting as a full-service project management house in respect of CG animation pictures
Imagi Intellectual Properties Limited	Labuan	US\$1,000	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi IP Holdings Pte. Limited	Labuan	US\$100	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Services Limited	Hong Kong	HK\$2	100%	Provision of administrative services

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**32. PARTICULARS OF SUBSIDIARIES (Continued)**

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company	Principal activities
			<i>(note (i))</i>	
Imagi Services (USA) Limited	United States of America	US\$100	100%	Marketing of CG animation projects
King's Quest Inc.	United States of America	US\$5,000	100%	Production management of CG animation pictures
Neo-Mad House Intellectual Properties Limited	Labuan	US\$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Neo-Mad House Intellectual Properties Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Neo-Mad House (X.S.I.) Limited	Labuan	US\$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Top Bond Technology Limited	Hong Kong	HK\$2	100%	Development of intellectual property rights in respect of CG games
Topway Asset Limited	British Virgins Islands	US\$4	100%	Investment holding
Rover's Trek Inc.	United States of America	US\$5,000	100%	Production management of CG animation pictures
Treasure Path Company Limited	Hong Kong	Ordinary shares HK\$100 Non-voting 5% deferred shares HK\$1,000,000 <i>(note (ii))</i>	100%	Inactive

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)**32. PARTICULARS OF SUBSIDIARIES** (Continued)*Notes:*

- (i) The Company directly holds the interests in Topway Asset Limited. All other interests shown above are indirectly held by the Company.
- (ii) The non-voting 5% deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the respective subsidiaries or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year.