NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of an associate/a jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs including HKAS 1 "Presentation of Financial Statements" and HKFRS 3 "Business Combinations" has had no material effect on how the results for the current or prior accounting periods are prepared and presented:

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisition was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(b) Share-based Payment

In the current period, the Group has applied 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 the fair value of Directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had not yet been vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of the Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. This change in accounting policy has had no material effect on the Group's accumulated profits as at 1 January 2005.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively and has had no material effect on the Group's accumulated profits as at 1 January 2005 since no reliable allocation between land and building can be made.

(e) Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the previous standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change in accounting policy has had no material effect on the Group's accumulated profits as at 1 January 2005.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. This change in accounting policy has had no material effect on the Group's accumulated profits as at 1 January 2005.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in Note 2 on the results for the current and prior period are as follows:

Analysis of increase (decrease) in profit for the period by line items presented according to their function.

	HKAS 1 *HK$'000* *(Note 2)*	HKFRS 3 *HK$'000* *(Note 2a)*	HKFRS 2 *HK$'000* *(Note 2b)*	Total effect *HK$'000*
For the six months ended 30 June 2005 (unaudited)				
Decrease in amortisation of goodwill	–	(3,499)	–	(3,499)
Decrease in share of result of a jointly controlled entity	(245)	–	–	(245)
Decrease in income tax expenses	245	–	–	245
Expenses in relation to share options granted to employees	–	–	11,980	11,980
Increase (decrease) in net loss for the period	–	(3,499)	11,980	8,481
Attributable to:				
Equity holders of the parent	–	(3,499)	11,980	8,481
Minority interests	–	–	–	–
Increase (decrease) in net loss for the period	–	(3,499)	11,980	8,481

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

	HKAS 1	HKFRS 2	Total effect
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 2b)*	
For the six months ended 30 June 2004 (unaudited)			
Increase in share of result of a jointly controlled entity	779	–	779
Increase in income tax expenses	(779)	–	(779)
Decrease in share of result of an associate	(18)	–	(18)
Decrease in income tax expenses	18	–	18
Expenses in relation to share options granted to employees	–	1,651	1,651
Decrease in net profit for the period	–	1,651	1,651
Attributable to:			
Equity holders of the parent	–	1,651	1,651
Minority interests	–	–	–
	–	1,651	1,651

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The cumulative effects of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (Originally stated)	Retrospective adjustments HKFRS 2	As at 31 December 2004 (Restated)	Adjustment on 1 January 2005 HKAS39	As at 1 January 2005 (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 2b)		*(Note 2c)*	
Balance sheet items					
Investment properties	92,400	–	92,400	–	92,400
Property, plant and equipment	3,412	–	3,412	–	3,412
Interest in a jointly controlled entity	118,022	–	118,022	–	118,022
Payment for acquisition of an associate	2,861	–	2,861	–	2,861
Investments in securities	23,145	–	23,145	(23,145)	–
Investments held for trading	–	–	–	23,145	23,145
Deferred tax liabilities	(281)	–	(281)	–	(281)
Other assets and liabilities	104,219	–	104,219	–	104,219
	343,778	–	343,778	–	343,778
Share capital	9,393	–	9,393	–	9,393
Accumulated profits	63,932	(14,863)	49,069	–	49,069
Share premium	266,317	–	266,317	–	266,317
Contributed surplus	2,135	–	2,135	–	2,135
Translation reserve	567	–	567	–	567
Shares option reserve	–	14,863	14,863	–	14,863
Equity holders of the parent	342,344	–	342,344	–	342,344
Minority interests	1,434	–	1,434	–	1,434
	343,778	–	343,778	–	343,778

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS – INT 4	Determining whether an Arrangement Contains a Lease
HKFRS – INT 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds

The Directors anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

4. CRITICAL ACCOUNTING ESTIMATE

Impairment of goodwill arising from acquisition of a subsidiary

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculated present value. The carrying amount of goodwill at the balance sheet date was approximately HK$80,000,000 after an impairment loss of approximately HK$129,950,000 was recognised in the income statement.

Details of the impairment loss on goodwill are provided in note 7.

5. SEGMENTAL INFORMATION

Revenue represents rental and management fee income, the net amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on distribution of digital motion pictures and franchise fee, rental income from equipment leasing, computer graphic ("CG") films and television drama production income.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

5. SEGMENTAL INFORMATION (continued)

For management purposes, the Group is currently organised into four operating divisions – property leasing and building management services, digital content distribution and exhibitions, CG creation and films and television drama production and CG training courses. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these divisions is presented below:

Six months ended 30 June 2005

	Property leasing and building management services HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television drama production HK$'000	CG training courses HK$'000	Consolidated HK$'000
REVENUE	2,739	4,490	3,751	1,822	12,802
RESULT					
Segment result	13,317	(5,203)	(28,793)	(85)	(20,764)
Unallocated corporate income					1,206
Unallocated corporate expenses					(24,089)
Finance costs					(3,285)
Share of result of a jointly controlled entity					337
Share of result of an associate					(248)
Impairment loss on goodwill arising from acquisition of a subsidiary					(129,950)
Loss before taxation					(176,793)
Taxation					(501)
Net loss for the period					(177,294)

For the six months ended 30 June 2004, the Group was engaged in single business – property leasing and building management. Accordingly, no business segment information is presented. No geographical segment information is presented as over 90% of the Group's segment revenue and assets are derived from operations carried out in Hong Kong.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

6. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**2,145**	844
Finance leases	**188**	–
Other finance costs	**228**	129
Other loans	**724**	–
	3,285	973

7. IMPAIRMENT LOSS ON GOODWILL ARISING FROM ACQUISITION OF A SUBSIDIARY

During the period, the Group acquired 658,466,023 shares, representing 82.2% of the issued share capital, of Global Digital Creations Holdings Limited ("GDC"). GDC is incorporated in Bermuda and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. The principal activities of GDC's subsidiaries are engaged in production of CG films and films digital content distribution and exhibition.

The Directors reviewed the business valuation, the anticipated profitability and the anticipated future operating cash flows of GDC. With reference to the financial results and business operated by GDC, the Directors identified impairment loss in respect of goodwill of approximately HK$129,950,000, such amounts were dealt with in the income statement for the six months ended 30 June 2005.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

8. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
		(restated)
(Loss) profit before taxation has been arrived at after charging:		
Allowance on production work in progress	**17,114**	–
Amortisation of goodwill of a jointly controlled entity (included in share of result of a jointly controlled entity)	**–**	937
Cost incurred in the provision of rental and management services*	**500**	1,205
Depreciation of property, plant and equipment	**3,539**	52
Unrealised holding loss on investments in securities	**–**	20
and after crediting:		
Dividend income from investments held for trading/investments in securities	**41**	39
Interest income from bank deposits	**914**	21
Profit on disposal of property, plant and equipment	**36**	–
Gain on fair value changes on investments held for trading	**228**	–

* This amount included staff costs of HK$500,000 (six months ended 30 June 2004: HK$924,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

9. TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
		(restated)
The charge (credit) comprises:		
Hong Kong Profits Tax:		
Current period	**90**	161
Overprovision in prior period	**–**	(345)
Deferred taxation	**411**	(815)
Taxation attributable to the Company and its subsidiaries	**501**	(999)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period.

No provision for the People's Republic of China (the "PRC", which for the purposes of this report, does not include Hong Kong, Macau and Taiwan) Enterprise Income Tax was made in the financial statements as the Group's subsidiaries operating in the PRC either have no assessable profit for the six months ended 30 June 2005 or pursuant to the relevant income tax regulations for productive enterprises with foreign investment established in the PRC and being approved by the relevant PRC tax authority, some subsidiaries in the PRC are eligible for an exemption from PRC Enterprise Income Tax for two years starting from the first profit-making year after offsetting all tax losses carried forward from the previous five years, followed by a 50% reduction of the tax rate in the next three years. The Group did not have any subsidiaries operating in the PRC for the six months ended 30 June 2004.

At 30 June 2005, the Group has unused tax losses of HK$84,201,000 (31 December 2004: HK$70,992,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$2,733,000 (31 December 2004: HK$2,527,000) of such tax losses and the whole amount has been offset with the deferred tax liabilities for the period. No deferred tax asset has been recognised in respect of the remaining HK$81,468,000 (31 December 2004: HK$68,465,000) due to the unpredictability of future profit streams.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

10. DIVIDEND

For the six months ended 30 June 2004, the Directors declared to distribute special dividend to be satisfied by the distribution in specie of the Group's entire shareholding of approximately 31.02%, representing 371,029,995 shares in an associate, Shougang Concord Technology Holdings Limited ("Shougang Technology"), to the Company's shareholders on a pro-rata basis (the "Distribution"). The Distribution was completed on 23 March 2004 and the market price of Shougang Technology's share at that date was HK$1.01 per share. Total dividend paid during the six months ended 30 June 2004 amounted to approximately HK$374,740,000.

No dividend was paid during the six months ended 30 June 2005. The Directors do not recommend the payment of an interim dividend.

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(176,972)**	82,050
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**1,080,176**	912,624
Effect of dilutive potential ordinary shares on share options		28,908
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share		941,532

The computation of diluted loss per share for the six months ended 30 June 2005 did not assume the exercise of the Company's outstanding share options as the exercise would result in a decrease in loss per share.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

12. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's investment properties were fair-valued by AA Property Services Limited, an independent professional valuer, at 30 June 2005. The resulting increase in fair value of investment properties of HK$10,743,000 (30 June 2004: deficit on revaluation of investment properties of HK$7,550,000) has been recognised directly in the income statement.

During the period, the Group acquired a building at a cost of approximately HK$20,120,000. In addition, the Group acquired an investment property at revalued amount and computer equipment at net book value of approximately HK$1,200,000 and HK$9,165,000 respectively as a result of the acquisition of subsidiaries.

13. TRADE RECEIVABLES

The Group allows different credit periods to its trade customers depending on the type of products or services provided. The majority of sales of goods are on letter of credit against payment, the remaining amounts are granted with average credit terms of 90 days.

The following is an age analysis of trade receivables at the reporting date:

	30 June 2005 *HK$'000*
0 – 90 days	**6,388**
91 – 180 days	**2,139**
Over 181 days	**506**
	9,033

14. TRADE PAYABLES

The following is an age analysis of trade payables at the reporting date:

	30 June 2005 *HK$'000*
0 – 90 days	**1,457**
91 – 180 days	**1,384**
Over 181 days	**859**
	3,700

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

15. BORROWINGS

During the period, the Group obtained new bank loans of HK$29.1 million (31 December 2004: Nil) and repaid bank loans of HK$60.3 million (31 December 2004: HK$5.6 million) in accordance with the repayment terms. All bank loans bear interest at market rates and are repayable over a period of 5 years.

16. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Amount	
	30 June 2005	31 December 2004	**30 June 2005** *HK$'000*	31 December 2004 *HK$'000*
Authorised:				
At beginning and end of the period/year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning of the period/year	**939,316,667**	857,867,914	**9,393**	8,579
Shares issued at premium for acquisition of a subsidiary	**197,539,802**	81,448,753	**1,976**	814
At end of the period/year	**1,136,856,469**	939,316,667	**11,369**	9,393

17. PLEDGE OF ASSETS

At 30 June 2005, all of the Group's pledged bank deposits, investment properties and land and buildings with an aggregate carrying value of approximately HK$112 million (31 December 2004: HK$160 million) were pledged to banks for bank loans. At 30 June 2005, the outstanding amounts of such bank loans were HK$71 million (31 December 2004: HK$105 million).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

18. CAPITAL COMMITMENTS

The Group had the following commitments at the interim reporting date:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
The Group's share of a jointly-controlled entity's capital commitments:		
Contracted, but not provided for	**6,084**	7,066

19. OTHER COMMITMENTS

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Expenditure contracted for but not provided in the financial statements in respect of:		
Advertising expenses	**470**	–
Film production costs	**3,051**	11,207

20. LITIGATION

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a wholly-owned subsidiary of GDC, entered into a co-production agreement (the "Co-production Agreement") with West Audiovisual and Multimedia Consultants, Inc. ("WAMC") and Production and Partners Multimedia, SAS ("PPM"), in which GDC has a 25% equity interest, in relation to an animated television series.

In November 2004, PPM issued a summons for summary judgment against WAMC and GDC Entertainment in the Court of Commerce of Angouleme (France), seeking the appointment of an agent who would oversee the co-production.

A hearing was scheduled to take place on 11 January 2005. However, at that time, PPM modified its claims against GDC Entertainment by seeking to substitute a new producer of the "same nationality" in replacement of GDC Entertainment pursuant to the Co-production Agreement, or the appointment of an expert whose task would be basically to assess the parties respective liabilities.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

20. LITIGATION (continued)

On 13 January 2005, GDC was informed by its French legal advisers that PPM's new claims do not affect accrued rights, as even if GDC were substituted, the monies invested by GDC are recoverable as an account payable under the co-production.

However, on 14 February 2005, PPM further modified its claims which include, inter-alia (i) the enforcement of an article of the Co-production Agreement which provides that in case of substitution of a producer to another one, the monies already invested by GDC shall become an account payable, recoverable from the revenues of the co-production, however, only "in last position with the recovery by the other co-producers of their contribution", and (ii) that GDC be sentenced to pay PPM the provisional amount of Euro5 million, as damages, this amount being subject to revision according to the findings of the expert to be appointed by the Court. The claim for damages is totally unparticularised.

On 10 March 2005, GDC's French legal adviser advised that the chances to recoup the totality of the investment are uncertain and in any event, the sums owed to GDC Entertainment will be recoupable only in the last position pursuant to the Co-production Agreement.

On 15 March 2005, the French legal adviser advised that the claims by PPM for the aforesaid provisional amount of Euro5 million, as damages, is out of touch with reality given that (i) PPM does not provide any explanation or detail computation for the claims of Euro5 million; (ii) the amount is more or less equals to the total budgeted costs under the Co-production Agreement; and (iii) the claim is still subject to the summary judgment to be rendered. The legal adviser further advised that in any event, the summary judgment to be rendered shall be very difficult to enforce or even may not be enforceable. Based on the abovementioned legal advice, the Directors considers that the claims of Euro5 million as damages should not have any immediate effect on the Group and no provision for this amount is considered necessary. Consideration is also being given by the directors of GDC to launch a counterclaim against PPM in the Hong Kong courts. GDC's Hong Kong legal advisor has advised that GDC have good and meritorious causes of action against PPM and pursuant to the agreement an application has been made to the Hong Kong International Arbitration Centre for arbitration. As soon as the arbitrator is appointed, a claim will be filed.

Up to 30 June 2005 and the date of this report, the position of this case has not been changed, as compared with 15 March 2005.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

21. ACQUISITION OF SUBSIDIARIES

In September 2004, the Group paid HK$2,861,000 as payment for acquisition of an associate in respect of a 40% equity interest of South China International Leasing Company Limited ("South China Leasing"), which is established in the PRC with principal activities in the provision of finance leasing including the leasing of machinery, equipment, electrical equipment, meters, motor vehicles and the leasing of immovable properties in the PRC. It is a sino-foreign equity joint venture established in the PRC on 20 May 1989 with an operation term of 40 years expiring in 2029. The relevant approval from the PRC authority of the change in shareholder was obtained in January 2005. Accordingly, the payment for acquisition of an associate was transferred as investment cost of an associate. In May 2005, the Group has further acquired 20% equity interest of South China Leasing at a consideration of HK$1,471,000 and it became a subsidiary of the Company since 26 May 2005. As at 30 June 2005, the Group held a 60% equity interest of South China Leasing.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	1,064	–	1,064
Intangible asset in respect of a finance lease licence	–	22,411	22,411
Bank balances and cash	7,137	–	7,137
Trade and other receivables	6,219	–	6,219
Trade and other payables	(49)	–	(49)
Borrowings	(29,976)	–	(29,976)
	(15,605)	22,411	6,806

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

21. ACQUISITION OF SUBSIDIARIES (continued)

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Total consideration satisfied by:			
Interest in an associate			2,613
Minority interest			2,722
Cash consideration paid			1,471
			6,806
Net cash inflow arising on acquisition:			
Cash consideration paid			1,471
Bank balances and cash			(7,137)
			(5,666)

South China Leasing contributed nil revenue and net profit of HK$127,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total revenue for the Group for the period would have been HK$12,802,000 and the loss for the period would have been HK$177,965,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor it is intended to be a projection of future results.

In February 2005, the Group has acquired 461,833,761 shares of GDC, representing approximately 57.7% of the issued share capital of GDC through share exchange of 138,550,125 shares of the Company. Subsequently in February and March 2005, the Group has further acquired in aggregate of 196,632,262 shares of GDC, representing approximately 24.5% of the issued share capital of GDC through share exchange of 58,989,677 shares of the Company. As at 30 June 2005, the Group held 658,466,023 shares of GDC, representing approximately 82.2% of the issued share capital of GDC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

21. ACQUISITION OF SUBSIDIARIES (continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustment** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:			
Property, plant and equipment	13,093	–	13,093
Other non-current assets	410	–	410
Deferred tax assets	151	–	151
Production work in progress	24,765	–	24,765
Inventories	5,233	–	5,233
Trade and other receivables	11,442	–	11,442
Bank and cash balances	4,926	–	4,926
Trade and other payables	(88,407)	–	(88,407)
Bank borrowings	(27,623)	–	(27,623)
	(56,010)	–	(56,010)
Goodwill			209,950
Total consideration, satisfied by:			
– share exchange *(Note)*			153,349
– cash			591
			153,940

Note: The consideration of HK$153,349,000 of share exchange was determined by the Directors with reference to the fair value of shares of the Company issued upon share exchange during February and March 2005 based on a valuation performed by Sallmanns (Far East) Limited, an independent professional valuer.

The goodwill arising on the acquisition of GDC is attributable to the anticipated profitability and the anticipated future operating cash flows of GDC. For the six months ended 30 June 2005, the Directors reviewed the business valuation, the anticipated profitability and the anticipated future operating cash flows of GDC. With reference to the financial results and business operated by GDC, the Directors identified an impairment loss in respect of goodwill of approximately HK$129,950,000, such amount is dealt with in the income statement for the six months ended 30 June 2005.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

21. ACQUISITION OF SUBSIDIARIES (continued)

GDC contributed HK$7,061,000 to the revenue and incurred net loss of HK$32,792,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total revenue for the Group for the period would have been HK$16,061,000 and net loss for the period would have been HK$181,536,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor it is intended to be a projection of future results.

22. POST BALANCE SHEET EVENTS

On 22 August 2005, the Group entered into a placing agreement with Baron Capital Limited ("Baron Capital"), whereby Baron Capital was appointed as the placing agent and has agreed to place not more than 58,000,000 shares of HK$0.01 each beneficially owned by the Group in the issued share capital of GDC at a price of HK$0.22 per share (the "Placing Shares") to not less than six placees who are independent third parties (the "Share Placing").

Subject to completion of the Share Placing, the Group would enter into an option agreement (the "Option Agreement(s)") with each of the placees. Pursuant to the Option Agreements, the Group would grant put options ("Put Options") to all the placees whereby the Group is obliged to purchase, upon exercise of the Put Option by the placees. The number of the option shares in respect of which the Put Options are exercised at an initial exercise price of HK$0.22 per share on any business day within the period commencing from the date of the Option Agreement up to and including the second anniversary of the date of the Option Agreement, during which the Put Options can be exercised in accordance with the provision of the Option Agreement. In the event that a placee exercises the Put Options, such placee shall be entitled to sell up to all of the option shares beneficially owned by such placee at the exercise price and the Group is obliged to purchase the number of option shares in respect of which the Put Options are exercised at such exercise price.

On 7 September 2005, 58,000,000 Placing Shares were successfully placed to eight placees at a price of HK$0.22 per share, the shareholding of the Group in GDC has been diluted from approximately 82.2% to approximately 74.98% of the issued share capital of GDC after the completion of the Share Placing.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

23. RELATED PARTY TRANSACTIONS

During the period, the Group entered into certain transactions with related parties:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Consultancy expenses charged by Shougang Holding (Hong Kong) Limited ("Shougang Holding"), an intermediate holding company of the Group	**480**	480
Rental expenses charged by Winluck Properties Limited, a subsidiary of Shougang Holding	**577**	297
Interest expenses charged by Mr. Anthony Francis Neoh ("Mr. A. Neoh"), a shareholder of the Company	**552**	–
Interest expenses charged by Ms. Chan Wing Yee, Betty, spouse of Mr. A. Neoh	**25**	–