Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its controlling shareholder is Shougang Holding (Hong Kong) Limited ("Shougang Holding") and its ultimate holding company is Shougang Corporation, a company established in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries, a jointly controlled entity and an associate are set out in notes 59, 23 and 24 respectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group incurred significant losses of approximately HK$320,627,000 for the year ended 31 December 2005 and the Group had net current liabilities of approximately HK$55,046,000 as at 31 December 2005. Notwithstanding, the Directors are of opinion that the preparation of these financial statements under the going concern basis is appropriate due to the following considerations:

(1) New bank borrowing

Up to the report date, the Group obtained a new bank loan of HK$50,000,000 from a bank with maturity due by 2010.

(2) Availability of facility

Up to the report date, the Group obtained a new bank facility of HK$25,000,000 from a bank with maturity due by 2009.

(3) Financial support from a controlling shareholder

Shougang Holding has committed to provide financial support to enable the Group to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, 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 Hong Kong Institute of Certified Public Accountants (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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

(a) Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* ("HKFRS 3") which is effective for business combination for which the agreement date is on or after 1 January 2005. Goodwill arising on acquisitions 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 year. Comparative figures for 2004 have not been restated (see Note 3A for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(b) Share-based Payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* ("HKFRS 2") 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 share options granted to directors and employees of the Group, 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 chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. 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 (see Note 3A for the financial impact).

(c) Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* ("HKAS 32") and HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39"). HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of 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 the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

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 *Accounting for investments in securities* ("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 profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured 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". "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. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "investment securities" amounting to HK$13,776,000 were classified as investments held for trading and HK$9,369,000 were classified as held-to-maturity investment on 1 January 2005 with no financial impact on the consolidated income statement (see Note 3A).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 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". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. This change in accounting policy has had no material effect on how the results for the current accounting period are prepared and presented.

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has, from 1 January 2005 onwards, deemed such derivatives as held for trading (see Note 3A for the financial impact).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(d) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases* ("HKAS 17"). 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. This change in accounting policy has been applied retrospectively (see Note 3A for the financial impact).

(e) Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property* ("HKAS 40"). 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 year in which they arise. In previous year, investment properties under the predecessor 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 a revaluation surplus 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 effect on the Group's accumulated profits as at 1 January 2005 or the result of the year.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(f) Deferred taxes related to investment properties

In previous year, 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 year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* ("HK(SIC) INT 21") 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. In the absence of any specific transitional provisions in HK(SIC) INT 21, this change in accounting policy has had no effect on the Group's accumulated profits as at 1 January 2005.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

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

The effects of the changes in the accounting policies described in Note 3 on the results for the current and prior years are as follows:

The following is an analysis of increase in net loss for the year ended 31 December 2005 and decrease in net profit for the year ended 31 December 2004 by line items presented according to their function:

(i) On results

	HKAS 1 HK$'000 *(Note 3)*	HKFRS 3 HK$'000 *(Note 3(a))*	HKFRS 2 HK$'000 *(Note 3(b))*	HKAS 39 HK$'000 *(Note 3(c))*	HK(SIC) INT 21 HK$'000 *(Note 3(f))*	Total effect HK$'000
For the year ended 31 December 2005						
Decrease in amortisation of goodwill	–	(8,440)	–	–	–	(8,440)
Increase in impairment loss on goodwill arising from acquisition of a subsidiary	–	8,440	–	–	–	8,440
Decrease in share of result of a jointly controlled entity	362	–	–	–	–	362
Decrease in income tax expenses	(362)	–	–	–	–	(362)
Expenses in relation to share options granted to employees	–	–	25,456	–	–	25,456
Increase in deferred tax charge on revaluation of investment properties	–	–	–	–	291	291
Recognition of derivative financial instruments	–	–	–	6,612	–	6,612
Increase in net loss for the year	–	–	25,456	6,612	291	32,359
Attributable to:						
Equity holders of the parent	–	–	25,456	6,612	291	32,359
Minority interests	–	–	–	–	–	–
	–	–	25,456	6,612	291	32,359

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

(i) On results (continued)

	HKAS 1 HK$'000 *(Note 3)*	HKFRS 2 HK$'000 *(Note 3(b))*	Total effect HK$'000
For the year ended 31 December 2004			
Increase in share of result of a jointly controlled entity	(1,200)	–	(1,200)
Increase in income tax expenses	1,200	–	1,200
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	–	14,863	14,863
Decrease in net profit for the year	–	14,863	14,863
Attributable to:			
Equity holders of the parent	–	14,863	14,863
Minority interests	–	–	–
	–	14,863	14,863

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

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

(ii) On income statement line items

	HKAS 1	HKFRS 3	HKFRS 2	HKAS 39	HK(SIC) INT 21	Total effect
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note 3)	*(Note 3(a))*	*(Note 3(b))*	*(Note 3(c))*	*(Note 3(f))*	
For the year ended 31 December 2005						
Increase in administrative expenses	–	–	25,456	6,612	–	32,068
Increase in impairment loss on goodwill arising from acquisition of a subsidiary	–	8,440	–	–	–	8,440
Decrease in amortisation of goodwill	–	(8,440)	–	–	–	(8,440)
Decrease in share of result of a jointly controlled entity	362	–	–	–	–	362
Decrease in income tax expenses	(362)	–	–	–	291	(71)
Increase in net loss for the year	–	–	25,456	6,612	291	32,359

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

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

(ii) On income statement line items (continued)

	HKAS 1 HK$'000 *(Note 3)*	HKFRS 2 HK$'000 *(Note 3(b))*	Total effect HK$'000
For the year ended 31 December 2004			
Increase in administrative expenses	–	14,863	14,863
Increase in share of result of a jointly controlled entity	(1,200)	–	(1,200)
Increase in income tax expenses	1,182	–	1,182
Decrease in share of result of an associate	18	–	18
Decrease in net profit for the year	–	14,863	14,863

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

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

(ii) On income statement line items (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 HKAS 17	Retrospective adjustments HKFRS 2	As at 31 December 2004 (Restated)	Adjustment on 1 January 2005 HKAS 39	As at 1 January 2005 (Restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note 3(d))	*(Note 3(b))*		*(Note 3(c))*	
Balance sheet items						
Investment properties	92,400	–	–	92,400	–	92,400
Property, plant and equipment	3,412	(1,746)	–	1,666	–	1,666
Prepaid lease payments	–	1,746	–	1,746	–	1,746
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	–	–	–	–	13,776	13,776
Held-to-maturity investment	–	–	–	–	9,369	9,369
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 options 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

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

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK (IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK (IFRIC) – INT 6	Liabilities arising from participating in a specific Market – Waste electrical and electronic equipment[3]
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

A subsidiary of the Company represents an entity controlled by the Company (it subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of any entity so as to obtain benefits from its activities.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant jointly controlled entity at the date of acquisition.

Goodwill arising on an acquisition of a jointly controlled entity for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of a jointly controlled entity (which is accounted for using the equity method) is included in the cost of the investment of the relevant jointly controlled entity.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when the investment is designated as at fair value through profit or loss upon initial recognition (in which case it is accounted for under HKAS 39) or when the investment is classified as held for trading (in which case it is accounted for under HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("HKFRS 5")). Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interest in an associate held for sale

Interest in an associate is classified held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Interest in an associate held for sale is measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entity (continued)

Where a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue, representing fair value of amount received and receivable from sale of goods in the ordinary course of business, is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of goods are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income from property and equipment leasing and management fee income is recognised on a straight line basis over the relevant lease terms.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Training fee income is amortised over the period of the training course.

CG creation and production income is recognised when the film production service is provided.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in fair value of investment property are included in income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

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. Finance charges are charged directly to income statement, 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 income statement 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 recognised as a reduction of rental expense over the lease term on a straight line basis.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations outside Hong Kong are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

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

Taxation

Income tax expense 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 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 profit 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 from the initial recognition 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, and interests in jointly controlled entities, 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 to 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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

On initial recognition, intangible assets acquired separately and from business combination are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in income statement when the asset is derecognised.

Inventories

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

Production work in progress

Production work in progress is stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Costs are transferred to film costs upon completion.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, finance lease receivables, bank balances, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

The Group's financial liabilities including trade payables, other payables and accruals, amount due to a fellow subsidiary, amount due to a related party, amounts due to shareholders, amount due to a former shareholder of a subsidiary, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in income statement.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' to present value where the effect is material.

Equity settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits/losses.

Impairment losses

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 amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are 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. An impairment loss recognised for goodwill arising from business combination for which the agreement date is on or after 1 January 2005 is not reversed in subsequent periods.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

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 Group 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. For the year ended 31 December 2005, an impairment loss of approximately HK191,457,000 was identified and recognised in the consolidated income statement. Details are disclosed in Note 21.

Allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Allowance for bad and doubtful debts of approximately HK$521,000 was made for the year ended 31 December 2005 (2004: Nil).

Allowance for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. Allowance for inventories of approximately HK$2,645,000 was made for the year ended 31 December 2005 (2004: Nil).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Allowance for production work in progress

The policy for allowance of production work in progress of the Group is based on the evaluation of the certainty in finalising the distribution/license agreements in the potential markets and on management's judgement. The management estimates the net realisable value for such production work in progress was HK$6,248,000 (2004: HK$2,482,000) as at 31 December 2005. Allowance for production work in progress of approximately HK$24,712,000 was made for the year ended 31 December 2005 (2004: Nil).

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, finance lease receivables, deposit and bank balances, trade and other receivables, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, trade receivables and borrowings denominated in foreign currencies which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Fair value interest rate risk

The Group's fair value interest rate risks and cash flow interest rate risks relate primarily to fixed-rate and variable-rate borrowings, respectively (see Note 42 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

7. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on Computer Graphic (the "CG") creation and films and television drama production income, training fee, property leasing and management fee income, finance lease income, technical service income and equipment leasing income during the year.

An analysis of the Group's revenue is as follows:

	2005	2004
	HK$'000	HK$'000
Sale of goods	**17,024**	–
CG creation and films and television drama production income	**13,866**	–
Training fee	**6,078**	–
Property leasing and management fee income	**5,411**	14,386
Finance lease income	**2,626**	–
Technical service income	**724**	–
Equipment leasing income	**82**	–
	45,811	14,386

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Segment information about these divisions is presented below:

For the year ended 31 December 2005

	Property leasing and building management service HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television drama production HK$'000	CG training courses HK$'000	Finance leasing HK$'000	Consolidated HK$'000
REVENUE	5,411	17,830	13,866	6,078	2,626	45,811
RESULT						
Segment result	17,713	(9,148)	(52,070)	89	(1,866)	(45,282)
Unallocated corporate income						2,975
Unallocated corporate expenses						(65,319)
Finance costs						(7,007)
Share of result of a jointly controlled entity	428	–	–	–	–	428
Share of result of an associate	–	–	–	–	(248)	(248)
Loss on disposal of partial interest in a subsidiary						(12,345)
Impairment loss on goodwill arising from acquisition of a subsidiary	–	–	(191,457)	–	–	(191,457)
Loss before taxation						(318,255)
Taxation						(2,372)
Net loss for the year						(320,627)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

At 31 December 2005

	Property leasing and building management service HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television drama production HK$'000	CG training courses HK$'000	Finance leasing HK$'000	Consolidated HK$'000
BALANCE SHEET						
Assets						
Segment assets	109,089	7,981	28,276	6,211	99,009	250,556
Interest in a jointly controlled entity						120,113
Unallocated corporate assets						91,161
Consolidated total assets						461,840
Liabilities						
Segment liabilities	12,323	3,273	35,735	2,455	29,031	82,817
Unallocated corporate liabilities						164,472
Consolidated total liabilities						247,289

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005

	Property leasing and building management service HK$'000	Digital content distribution and exhibitions HK$'000	CG creation and films and television drama production HK$'000	CG training courses HK$'000	Finance leasing HK$'000	Consolidated HK$'000
OTHER INFORMATION						
Capital addition	15,913	355	4,162	191	3,040	23,661
Amortisation of intangible assets	–	–	–	–	545	545
Depreciation	815	1,662	4,848	373	642	8,340
Allowance for bad and doubtful debt	–	521	–	–	–	521
Allowance for inventories	–	2,645	–	–	–	2,645
Allowance for production work in progress	–	–	24,712	–	–	24,712
Impairment loss on goodwill arising from acquisition of a subsidiary	–	–	191,457	–	–	191,457

For the year ended 31 December 2004, the Group was engaged in single business-property leasing and building management service. Accordingly, no business segment information is presented.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

The Group's five business segments operate in five main geographical areas, namely Hong Kong, the PRC excluding Hong Kong, India, Singapore and other regions. The head office of the Group is located in Hong Kong. The Group's leasing division is located in the PRC excluding Hong Kong. The Group's CG creation and production centre and the CG training facilities are located in the PRC excluding Hong Kong. Customers of the Group's digital content distribution and exhibitions business are located in the PRC, India, Singapore and other regions.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods.

	2005 HK$'000
The PRC, excluding Hong Kong	**21,974**
Hong Kong	**5,411**
India	**2,123**
Singapore	**2,439**
Other regions	**13,864**
	45,811

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Segment assets 2005 HK$'000	Additions to property, plant and equipment 2005 HK$'000
The PRC, excluding Hong Kong	**245,443**	22,948
Hong Kong	**210,023**	671
India	**196**	–
Singapore	**1,717**	42
Other regions	**4,461**	–
Total	**461,840**	23,661

For the year ended 31 December 2004, 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 Consolidated Financial Statements

For the Year Ended 31 December 2005

9. OTHER INCOME

	2005	2004
	HK$'000	HK$'000
Increase in fair value of investment properties	**14,767**	–
Interest income from bank deposits	**976**	283
Interest income from investments in securities	**–**	37
Dividend income from equity investments	**162**	50
Dividend income from an associate held for sale	**1,800**	–
Gain on disposal of investments held for trading	**919**	–
Gain on disposal of property, plant and equipment	**36**	–
License fee income	**–**	349
Unrealised holding gain on investments in securities	**–**	75
Others	**1,223**	55
	19,883	849

10. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on bank and other borrowings wholly repayable within five years	**6,606**	1,860
Other finance costs	**401**	255
	7,007	2,115

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

During the year, the Group acquired 658,466,023 shares, representing a 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. The principal activities of GDC's subsidiaries are engaged in production of CG films and television drama, films digital content distribution and exhibition, and provision of CG training courses. Details of this are set out in note 49.

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 of the Company identified an impairment loss in respect of goodwill of approximately HK$191,457,000, such an amount was dealt with in the consolidated income statement for the year ended 31 December 2005.

12. TAXATION

	2005	2004
	HK$'000	HK$'000
Current tax:		
Hong Kong		
Provision for the year	**138**	276
Under(over)provision in prior years	**1,792**	(345)
	1,930	(69)
Deferred taxation *(Note 46)*:		
Current year	**442**	(3,190)
	2,372	(3,259)

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions, if any.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

12. TAXATION (continued)

No provision for 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 year ended 31 December 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 year ended 31 December 2004.

The tax expenses (credit) for the year can be reconciled to the (loss) profit per the income statement as follows:

	2005	2004
	HK$'000	HK$'000
		(restated)
(Loss) profit before taxation	**(318,255)**	64,397
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	**(55,695)**	11,269
Tax effect on share of result of a jointly controlled entity	**(75)**	12,285
Tax effect on share of result of an associate	**43**	1,024
Tax effect of expenses not deductible for tax purpose	**55,616**	3,992
Tax effect of income not taxable for tax purpose	**(5,393)**	(31,600)
Under(over)provision in prior years	**1,792**	(345)
Tax effect of deferred tax assets/tax losses not recognised	**7,502**	1,481
Tax effect of utilisation of deferred tax assets/tax losses previously not recognised	**(3,703)**	(1,365)
Effect of tax exemptions granted to PRC subsidiaries	**320**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,965**	–
Tax expenses (credit) for the year	**2,372**	(3,259)

13. NET (LOSS) PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000 (restated)
Net (loss) profit for the year has been arrived at after charging:		
Staff costs, including Directors' remuneration *(Note 14)*:		
– Salaries, wages and other benefits	**51,536**	25,105
– Retirement benefit scheme contributions	**689**	180
Total staff costs	**52,225**	25,285
Allowance for bad and doubtful debt	**521**	–
Allowance for inventories	**2,645**	–
Allowance for production work in progress	**24,712**	–
Amortisation of intangible asset	**545**	–
Amortisation of prepaid lease payments	**134**	32
Auditors' remuneration	**1,400**	350
Decrease in fair value of investments held for trading	**3,099**	–
Depreciation of property, plant and equipment	**8,340**	164
Less: amounts included in production work in progress	**(5,500)**	–
	2,840	164
Impairment loss of property, plant and equipment	**2,350**	–
Loss on disposal of investment properties	**–**	1,427
Loss on disposal of property, plant and equipment	**–**	1
Minimum lease payments under operating leases for land and buildings	**1,947**	841
Revaluation deficit of investment properties	**–**	2,800
Share of taxation of a jointly controlled entity	**362**	1,200
and after crediting:		
Gross rents from investment properties	**5,411**	12,736
Less: outgoings	**(581)**	(597)
	4,830	12,139

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 11 (2004: 10) Directors were as follows:

2005

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zheng HK$'000	Wang Tian HK$'000	Cheng Xiaoyu HK$'000	Leung Shun Sang, Tony HK$'000	Choy Hok Man, Constance HK$'000	Tam King Ching, Kenny HK$'000	Hui Hung, Stephen HK$'000	Zhou Jianhong HK$'000	Yuan Wenxin HK$'000	Total HK$'000
Fees	–	–	–	–	–	120	120	150	150	150	–	690
Other emoluments												
Salaries and other benefits	–	250	1,800	1,400	1,400	–	–	–	–	–	750	5,600
Retirement benefit scheme contributions	–	–	12	12	12	–	–	–	–	–	6	42
Total emoluments	–	250	1,812	1,412	1,412	120	120	150	150	150	756	6,332

2004

	Wang Qinghai HK$'000	Cao Zhong HK$'000	Chen Zheng HK$'000	Wang Tian HK$'000	Cheng Xiaoyu HK$'000	Leung Shun Sang, Tony HK$'000	Choy Hok Man, Constance HK$'000	Tam King Ching, Kenny HK$'000	Hui Hung, Stephen HK$'000	Zhou Jianhong HK$'000	Total HK$'000
Fees	–	–	–	–	–	66	61	60	10	10	207
Other emoluments											
Salaries and other benefits	–	–	1,550	1,183	80	6	6	5	5	5	2,840
Retirement benefit scheme contributions	–	–	11	10	–	–	–	–	–	–	21
Total emoluments	–	–	1,561	1,193	80	72	67	65	15	15	3,068

No Director waived any emoluments in both years.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2004: two) were Directors of the Company whose emoluments are set out above. The emoluments of the remaining two (2004: three) individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**3,270**	2,142
Contributions to retirement benefits schemes	**18**	35
	3,288	2,177

Their emoluments were within the following bands:

	2005 No. of employee(s)	2004 No. of employees
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–

15. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim – HK39.9 cents per share, by way of distribution in specie	**–**	374,740

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15. DIVIDENDS (continued)

For the year ended 31 December 2004, the Directors of the Company 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 2004 amounted to approximately HK$374,740,000.

No dividend was paid or proposed during 2005 and 2004, nor has any dividend been proposed since the balance sheet date.

16. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss for the year attributable to equity holders of the parent of approximately HK$316,796,000 (2004: net profit of HK$67,720,000 as restated) and on the weighted average of 1,108,749,189 shares (2004: 926,043,210 shares) in issue during the year.

No diluted loss per share has been presented because the Company does not have any dilutive potential option for the year ended 31 December 2005.

No diluted earnings per share has been presented for the previous year because the exercise price of the Company's options was higher than the average market price for shares for that year.

The following table summarises the impact on basic (loss) earnings per share as a result of:

	Impact on basic (loss) earnings per share	
	2005	2004
	HKcents	HKcents
Reported figures before adjustments	**(25.65)**	8.92
Adjustments arising from changes in accounting policies	**(2.92)**	(1.61)
Restated	**(28.57)**	7.31

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2004	236,000
Revaluation deficit recognised in the consolidated income statement	(2,800)
Disposals	(140,800)
At 1 January 2005	92,400
Acquired on acquisition of a subsidiary	833
Net increase in fair value recognised in the consolidated income statement	14,767
At 31 December 2005	108,000

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, independent qualified professional valuers not connected with the Group. AA Property Services Limited is a registered firm of the Hong Kong Institute of Surveyors (the "HKIS"), and has appropriate qualifications. The valuation, which conforms to the HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties. As at 31 December 2005, the carrying amount of such property interests amounted to HK$108,000,000 (31 December 2004: HK$92,400,000).

All of the Group's investment properties are held under long leases in Hong Kong and the PRC and investment properties with carrying value of HK$85,500,000 have been pledged to banks to secure general banking facilities granted to the Group.

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18. PROPERTY, PLANT AND EQUIPMENT

	Land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Digital film encoders and servers HK$'000	Computer equipment HK$'000	Other fixed assets HK$'000	Total HK$'000
COST							
At 1 January 2004							
– As originally stated	2,100	1,043	126	–	–	3,569	6,838
– Reclassified to prepaid lease payments	(2,100)	–	–	–	–	–	(2,100)
– As restated	–	1,043	126	–	–	3,569	4,738
Additions	–	–	247	–	–	693	940
Disposals	–	–	–	–	–	(76)	(76)
At 31 December 2004	–	1,043	373	–	–	4,186	5,602
Exchange realignment	–	349	409	–	240	3	1,001
Additions	–	15,347	2,036	–	2,147	4,131	23,661
Acquired on acquisition of subsidiaries	–	–	368	1,499	10,172	1,285	13,324
Disposals	–	–	–	–	(397)	(731)	(1,128)
At 31 December 2005	–	16,739	3,186	1,499	12,162	8,874	42,460
DEPRECIATION AND IMPAIRMENT							
At 1 January 2004							
– As originally stated	322	229	126	–	–	3,492	4,169
– Reclassified to prepaid lease payments	(322)	–	–	–	–	–	(322)
– As restated	–	229	126	–	–	3,492	3,847
Provided for the year	–	24	47	–	–	93	164
Eliminated on disposals	–	–	–	–	–	(75)	(75)
At 31 December 2004	–	253	173	–	–	3,510	3,936
Exchange realignment	–	–	390	–	–	9	399
Provided for the year	–	351	755	191	5,987	1,056	8,340
Eliminated on disposals	–	–	–	–	(261)	(469)	(730)
Impairment losses	–	–	–	1,308	1,042	–	2,350
At 31 December 2005	–	604	1,318	1,499	6,768	4,106	14,295
CARRYING VALUES							
At 31 December 2005	–	16,135	1,868	–	5,394	4,768	28,165
At 31 December 2004	–	790	200	–	–	676	1,666

18. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	2%
Leasehold improvements	Over the lease term
Digital film encoders and servers	10%
Computer equipment	33$^1/_3$%
Other fixed assets	20% – 30%

At 31 December 2005, the net book value of computer equipment of approximately HK$5,394,000 includes an amount of approximately HK$2,329,000 (2004: Nil) in respect of assets held under finance leases.

At 31 December 2005, the Group has pledged buildings with a net book value of approximately HK$770,000 (2004: HK$790,000) to secure general banking facilities granted to the Group.

Certain of the plant and equipment of the Group is leased out under finance leases, details of finance lease receivables are disclosed in Note 26.

During the year, the Directors conducted a review of the Group's computer equipment and digital film encoders and servers and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, the carrying amount of computer equipment of one of the Company's subsidiaries amounting to approximately HK$1,042,000 and the carrying amount of the Group's digital film encoders and servers amounting to approximately HK$1,308,000 have been fully impaired.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

19. PREPAID LEASE PAYMENTS

	2005 **HK$'000**	2004 HK$'000
The Group's prepaid lease payments comprise:		
Long-term leasehold land in Hong Kong	**1,714**	1,746
Medium-term leasehold land in the PRC	**4,779**	–
	6,493	1,746
Analysed for reporting purposes as:		
Current asset	**136**	32
Non-current asset	**6,357**	1,714
	6,493	1,746

The Group has pledged land with a net book value of approximately HK$1,714,000 (2004: HK$1,746,000) to secure general banking facilities granted to the Group.

20. GOODWILL

	HK$'000
COST	
Arising on acquisition of a subsidiary *(see Note 49)*	209,950
Eliminated on disposal of partial interest in a subsidiary	(18,493)
At 31 December 2005	191,457
IMPAIRMENT	
Impairment loss recognised for the year and at 31 December, 2005	(191,457)
CARRYING VALUES	
At 31 December 2005	–
At 31 December 2004	–

Particulars regarding impairment testing on goodwill are disclosed in Note 21.

21. IMPAIRMENT TESTING ON GOODWILL

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful life set out in Note 20 has been allocated to individual cash-generating units ("CGU") mainly represented by GDC which is engaged in the business of digital content distribution and exhibitions segment, CG creation and production segment and CG training courses segment.

The recoverable amounts of the above CGU have been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. Both value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 15%. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

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 of the Company identified an impairment loss in respect of goodwill of approximately HK$191,457,000, such an amount was dealt with in the consolidated income statement for the year ended 31 December 2005.

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22. INTANGIBLE ASSET

	Finance lease license HK$'000
COST	
Acquired from acquisition of a subsidiary and balance at 31 December 2005	22,411
AMORTISATION	
Charge for the year and balance at 31 December 2005	545
CARRYING VALUES	
At 31 December 2005	21,866
At 31 December 2004	–

The Group's finance lease license was purchased as part of a business combination during the year.

The Directors amortised the cost on a straight line basis over 24 years which is the remaining valid period of the business license of that subsidiary.

23. INTEREST IN A JOINTLY CONTROLLED ENTITY

At 31 December 2005, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation and operation	Proportion of nominal value of issued ordinary share capital indirectly held by the Company	Principal activities
北京東直門國際公寓有限公司 Beijing Dongzhimen International Apartment Co. Ltd. ("Beijing Dongzhimen")	Sino-foreign equity joint venture	The PRC	44%	Property holding and provision of residential service apartments

Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the PRC on 18 December 1986 with a tenure of 14 years and 8 months to 17 August 2001 (the "initial JV term"). The extension of the initial JV term for a further period of 15 years from the date of expiry of the initial JV term to 17 August 2016 has been approved by the relevant authorities.

Beijing Dongzhimen has obtained approval from relevant authorities to further extend the land use right of the residential service apartments for 40 years following the expiry of the initial JV term.

23. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

The summarised financial information in respect of Beijing Dongzhimen which are accounted for using the equity method is set out below:

	2005 **HK$'000**	2004 HK$'000
Total assets	**464,550**	489,323
Total liabilities	**(191,565)**	(221,092)
Net assets	**272,985**	268,231
Group's share of net assets of a jointly controlled entity	**120,113**	118,022
Revenue	**106,836**	98,765
Net profit (loss) for the year	**972**	(159,538)
Group's share of result of a jointly controlled entity	**428**	(70,197)

24. INTEREST IN AN ASSOCIATE

	2005 **HK$'000**	2004 HK$'000
Cost of investment in unlisted associate	**780**	780
Share of post-acquisition results *(Note (a))*	**–**	–
Less: Impairment loss recognised	**(780)**	(780)
	–	–

24. INTEREST IN AN ASSOCIATE

As at 31 December 2005, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation/ registration and operation	Proportion of nominal of value issued share capital held by the Group	Principal activities
Top Pearl International Development Limited ("Top Pearl")	Incorporated	British Virgin Islands ("BVI")/ The PRC	50%	Property development

The summarised financial information in respect of the Group's associates is set out bellows:

	2005 HK$'000	2004 HK$'000
Total assets *(Note (b))*	**–**	–
Total liabilities *(Note (b))*	**–**	–
Net assets	**–**	–
Group's share of net assets of an associate	**–**	–
Loan to an associate	**27,900**	27,900
Due from an associate	**3,589**	3,589
	31,489	31,489
Less: Allowance for bad and doubtful debt	**(31,489)**	(31,489)
	–	–

No revenue was generated from Top Pearl for both years and accordingly no share of result by the Group was recognised in the consolidated income statement for both years.

The loan of HK$27,900,000 (2004: HK$27,900,000) to an associate is unsecured, interest-bearing at 15% per annum and has no fixed terms of repayment. The amount "Due from an associate" is unsecured, interest-free and has no fixed terms of repayment. Both of these amounts have been fully provided against at the balance sheet date.

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24. INTEREST IN AN ASSOCIATE (continued)

Notes:

(a) During the year ended 31 December 2005, the Group acquired a 40% equity interest of an associate and recognised share of post-acquisition loss of this associate of HK$248,000 in the consolidated income statement. This associate subsequently became a subsidiary of the Company upon further acquisition of a 20% equity interest by the Group in May 2005. Particulars regarding the acquisition of this entity are disclosed in Note 49.

(b) On 13 February 2004, the Directors of the Company declared to distribute a 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 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 special dividend distributed amounted to approximately HK$374,740,000 and a gain on distribution of an associate of HK$189,210,000 has been recognised during the year ended 31 December 2004.

25. AVAILABLE-FOR-SALE INVESTMENT – NON-CURRENT

	2005 **HK$'000**
Unlisted equity securities	–

The above investment represents an unlisted investment in a 25% equity interest in Production and Partners Multimedia, SAS, a company incorporated in France. Since the Group did not have any significant influence to the investee, the investment is accounted for in accordance with the Group's accounting policy for financial assets – available-for-sale investment in accordance with HKAS 39. The investment was acquired on acquisition of a subsidiary during the year ended 31 December 2005 with a fair value of nil.

26. FINANCE LEASE RECEIVABLES

Certain of the plant and equipment of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease receipts		Present value of minimum lease receipts	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease receivables comprise:				
Within one year	**37,364**	–	**33,513**	–
In more than one year but not more than two years	**27,333**	–	**25,594**	–
In more than two years but not more than three years	**4,738**	–	**3,981**	–
In more than three years but not more than four years	**3,401**	–	**3,009**	–
In more than four years but not more than five years	**1,687**	–	**1,611**	–
	74,523	–	**67,708**	–
Less: Unearned finance income	**(6,815)**	–	**N/A**	N/A
Present value of minimum lease receipts	**67,708**	–	**67,708**	–
Analysed as:				
Current finance lease receivables (receivable within 12 months)			**33,513**	–
Non-current finance lease receivables (receivable after 12 months)			**34,195**	–
			67,708	–

Effective interest rates of the above finance leases range from 5% to 6%.

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26. FINANCE LEASE RECEIVABLES (continued)

Finance lease receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	RMB'000
As at 31 December 2005	70,491
As at 31 December 2004	–

Unguaranteed residual values of assets leased under finance leases are estimated at approximately HK$9,000 (2004: Nil).

Finance lease receivables of approximately HK$37,193,000 (2004: Nil) has been pledged against general banking facilities granted to the Group.

The fair value of the Group's finance lease receivables at 31 December 2005 approximates to the corresponding carrying amount.

27. INVENTORIES

	2005 **HK$'000**	2004 HK$'000
Raw materials, net of allowance of approximately HK$475,000 (2004: Nil)	**448**	–
Finished goods, net of allowance of approximately HK$2,170,000 (2004: Nil)	**7,374**	–
	7,822	–

28. PRODUCTION WORK IN PROGRESS

	2005 HK$'000	2004 HK$'000
Movie and television series, net of allowance of approximately HK$24,712,000 (2004: Nil) *(Note)*	**6,248**	2,482

Note: The amount represents production costs incurred for several television series.

29. INTEREST IN AN ASSOCIATE HELD FOR SALE

	2005 HK$'000	2004 HK$'000
Unlisted equity security, at cost	**28,816**	–

The above unlisted investment represents an investment of 30% interest in an associate, which is a private entity established in the PRC and is engaged in the business of property development, acquired during the year ended 31 December 2005 at consideration of RMB30,000,000 (equivalent to approximately HK$28,816,000). In accordance with the sale and purchase agreement entered by the Group with the original seller, the Group has a repurchase arrangement with the original seller where the Group has the right to dispose of this investment to the original seller at consideration of RMB30,000,000 (equivalent to approximately HK$28,816,000) on or before 31 May 2006 and the original seller has the right to repurchase back the investment at consideration of RMB30,000,000 (equivalent to approximately HK$28,816,000) on or before 31 May 2006. The investment is accounted for in accordance with the Group's accounting policy for investment in an associate held for sale in accordance with HKFRS 5.

30. TRADE RECEIVABLES

	2005 HK$'000	2004 HK$'000
Trade receivables	**7,610**	–
Less: Allowance for bad and doubtful debts	**(521)**	–
	7,089	–

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30. TRADE RECEIVABLES (continued)

The Group allows an average credit periods of 90 days to its trade customers. The following is an aged analysis of the trade receivables at the report date:

	2005 HK$'000	2004 HK$'000
0 – 90 days	5,283	–
91 – 180 days	1,455	–
> 180 days	351	–
	7,089	–

The fair value of the Group's trade receivables at 31 December 2005 approximates to the corresponding carrying amount.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The fair value of the Group's deposits and other receivables at 31 December 2005 approximates to the corresponding carrying amount.

32. INVESTMENTS HELD FOR TRADING

Investments held for trading as at 31 December 2005 represent equity securities listed in Hong Kong.

The fair values of the investments held for trading are determined based on the quoted market bid prices available on the relevant exchanges.

33. INVESTMENTS IN SECURITIES

Investments in securities as at 31 December 2004 are set out as follows:

	2004 HK$'000
Other investments	
Equity securities listed in Hong Kong, at market value	13,776
Held-to-maturity investment	
Unlisted debt securities in the PRC, at cost	9,369
	23,145

Upon the application of HKAS 39 on 1 January 2005, investments in securities were reclassified to investments held for trading and held-to-maturity investment under HKAS 39 (see Note 3A for details).

34. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The deposits carry floating interest rate of prevailing bank saving deposits rate ("prime rate") plus 1%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amounts.

35. OTHER FINANCIAL ASSET

Bank balances and cash

The Group's deposits carry interest rate at prevailing bank saving deposits rate with maturity of less than 3 months. The Directors of the Company consider that the carrying amount of the Group's bank balances and cash approximates to their fair values.

36. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2005	2004
	HK$'000	HK$'000
0 – 90 days	**4,368**	–
91 – 180 days	**16**	–
>180 days	**40**	–
	4,424	–

The fair value of the Group's trade payables at 31 December 2005 approximates to the corresponding carrying amount.

37. OTHER PAYABLES AND ACCRUALS

The fair value of the Group's other payables and accruals at 31 December 2005 approximates to the corresponding carrying amount.

38. INCOME RECEIVED IN ADVANCE

The income received in advance represented handling fee received from finance lease receivables and deferred income from an investee which is recognised on a straight line basis over the relevant lease term/investment term.

	2005	2004
	HK$'000	HK$'000
Analysed for reporting purposes of:		
Current	**6,714**	–
Non-current	**1,194**	–
	7,908	–

39. RENTAL AND MANAGEMENT FEE DEPOSITS RECEIVED

The fair value of the Group's rental and management fee deposits received at 31 December 2005 approximates to the corresponding carrying amount.

40. AMOUNT DUE TO A FELLOW SUBSIDIARY/AMOUNTS DUE TO SHAREHOLDERS

	Notes	**2005 HK$'000**	2004 HK$'000
Amount due to a fellow subsidiary			
– due within one year:			
Shougang (Hong Kong) Finance Company Limited	(a)	**24,260**	–
Amounts due to shareholders			
– due within one year:			
Mr. Anthony Francis Neoh	(b)	**22,403**	–
Bright Oceans Corporation (HK) Limited	(c)	**3,659**	–
		26,062	–

Notes:

(a) The loan is unsecured, interest bearing at a fixed rate of 5% per annum and is repayable on 18 October 2006. The fair value of the balance at 31 December 2005 approximates to the corresponding carrying amount.

(b) The loan is unsecured and is repayable on demand. Except for an amount of HK$4,147,000 which is non-interest bearing, the remaining amount is interest bearing at the best lending rate as quoted by the Hong Kong and Shanghai Banking Corporation Limited ("Best Lending Rate") from time to time plus 3% per annum. The fair value of the balance at 31 December 2005 approximates to the corresponding carrying amount.

(c) The loan is unsecured and is repayable on demand. Except for an amount of HK$458,000 which is non-interest bearing, the remaining amount is interest bearing at the Best Landing Rate plus 3% per annum. The fair value of the balance at 31 December 2005 approximates to the corresponding carrying amount.

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41. AMOUNT DUE TO A RELATED PARTY/AMOUNT DUE TO A FORMER SHAREHOLDER OF A SUBSIDIARY

	Notes	**2005** **HK$'000**	2004 HK$'000
Amount due to a related party – due within one year:			
Madam Chan Wing Yee, Betty	(a)	**1,098**	–
Amount due to a former shareholder of a subsidiary – due after one year	(b)	**1,495**	–

Notes:

(a) The amount due to Madam Chan Wing Yee, Betty, the spouse of Mr. Anthony Francis Neoh, who is a shareholder of the Company, is unsecured and repayable on demand. Except for an amount of HK$98,000 which is non-interest bearing, the remaining amount is interest bearing at the Best Lending Rate plus 3% per annum. The fair value of the balance as at 31 December 2005 approximates to the corresponding carrying amount.

(b) The amount is unsecured, non-interest bearing and is stated at amortised cost at effective interest rate of 9.8%. The imputed interest expenses amounting to HK$445,000 is deemed to be a capital contribution and recognised as capital contribution reserve as at 31 December 2005.

42. BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank overdrafts	**2,250**	–
Bank loans	**88,972**	105,800
	91,222	105,800
Other loans	**28,600**	–
	119,822	105,800
Secured	**66,263**	105,040
Unsecured	**53,559**	760
	119,822	105,800
Carrying amount repayable:		
On demand or within one year	**76,648**	15,800
More than one year, but not exceeding two years	**30,354**	20,000
More than two years, but not more than five years	**12,820**	70,000
	119,822	105,800
Less: Amounts due within one year shown under current liabilities	**(76,648)**	(15,800)
Amounts due after one year	**43,174**	90,000

Bank loans include approximately HK$24,959,000 (2004: Nil) fixed-rate borrowings which carry interest at 6% per annum. The remaining bank loans are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.35% per annum (2004: ranging from HIBOR plus 1.35% to 1.75% per annum).

Other loans include approximately HK$14,730,000 (2004: Nil) fixed-rate borrowings which carry interest ranging from 6% to 15% per annum. The remaining other loans are variable-rate borrowings which carry interest at the prime rate plus 3% per annum (2004: Nil).

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42. BORROWINGS (continued)

The Group's borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	US$ '000	RMB '000
As at 31 December 2005	2,500	30,000
As at 31 December 2004	–	–

During the year, the Group obtained new loans of HK$21,196,000 (2004: Nil). The loans include approximately HK$19,386,000 (2004: Nil) fixed-rate borrowings which carry interest at 6% per annum. The remaining loans are variable-rate borrowings which carry interest ranging from HIBOR plus 1.35% to 1.75% per annum. The loans will be repayable in 2007.

The Directors consider that the carrying amount of fixed-rate borrowings approximates their fair values.

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43. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**3,135**	–	**2,761**	–
In more than one year but not more two years	**738**	–	**716**	–
	3,873	–	**3,477**	–
Less: Future finance charges	**(396)**	–	**N/A**	N/A
Present value of lease obligations	**3,477**	–	**3,477**	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(2,761)**	–
Amount due for settlement after 12 months			**716**	–

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

All finance lease obligations are denominated in Hong Kong dollars, the functional currency of the subsidiary entered into these arrangements.

The lease term ranges from two to three years. For the year ended 31 December 2005, the average effective borrowing rate was 5.7% (2004: Nil). 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 Directors consider that the carrying amount of the obligations under finance leases approximates to their fair value.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

44. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2005	1.1.2005
	Liabilities	Liabilities
	HK$'000	HK$'000
Put option	**6,612**	–

On 7 September 2005, the Group has entered into option agreements (the "Option Agreements") with each of the placees of the issued share capital of GDC. 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 Options 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 7 September 2005 up to and including the second anniversary of the date of 7 September 2005, during which the Put Options can be exercised in accordance with the provision of the Option Agreements. 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. The financial impact of the Put Options for the year ended 31 December 2005 is set out in Note 3A.

The above derivatives are measured at fair value at the balance sheet date. The fair value of the Group's derivative financial instruments at 31 December 2005 has been arrived at on the basis of a valuation carried out on that date by Sallmanns (Far East) Limited, an independent qualified professional valuer not connected with the Group. The fair value was calculated using the Binomial model.

45. SECURITY DEPOSITS RECEIVED

The fair value of the Group's security deposits received at 31 December 2005 approximates to the corresponding carrying amount.

46. DEFERRED TAX LIABILITIES

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

	Investment properties HK$'000	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Other HK$'000	Total HK$'000
At 1 January 2004	3,432	39	–	–	3,471
(Credit) charge to the consolidated income statement	(2,753)	5	(442)	–	(3,190)
At 31 December 2004 and 1 January 2005	679	44	(442)	–	281
Arising on acquisition of a subsidiary	–	(118)	–	(33)	(151)
Charge (credit) to the consolidated income statement	2,584	(2,050)	(125)	33	442
At 31 December 2005	3,263	(2,124)	(567)	–	572

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005 HK$'000	2004 HK$'000
Deferred tax liabilities	**572**	281

At the balance sheet date, the Group has unused tax losses of approximately HK$97,309,000 (2004: HK$79,873,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$3,240,000 (2004: HK$2,527,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$94,069,000 (2004: HK$77,346,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$2,955,000 (2004: HK$3,645,000) that will expire in 2008. Other losses may be carried forward indefinitely.

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For the Year Ended 31 December 2005

46. DEFERRED TAX LIABILITIES (continued)

At the balance sheet date, the Group has deductible temporary differences of approximately HK$32,583,000 (2004: HK$27,586,000) attributable to the difference between tax allowances and depreciation. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

47. SHARE CAPITAL

	2005		2004	
	Number of shares	**Nominal value HK$'000**	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**2,000,000,000**	**20,000**	2,000,000,000	20,000
Issued and fully paid:				
At 1 January	**939,316,667**	**9,393**	857,867,914	8,579
Issued in consideration for acquisition of the issued share capital of GDC *(Note 49)*	**197,539,802**	**1,976**	–	–
Exercise of share options	**–**	**–**	81,448,753	814
At 31 December	**1,136,856,469**	**11,369**	939,316,667	9,393

48. TRANSFER OF CONTRIBUTED SURPLUS

The contributed surplus represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange. On 4 March 2004, a resolution was passed by the Directors to transfer HK$362,731,000 from contributed surplus to accumulated losses for the purpose of distribution in specie.

49. ACQUISITION OF SUBSIDIARIES

(1) In September, 2004, the Group paid HK$2,861,000 as payment for acquisition 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 an additional 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 31 December 2005, the Group held a 60% equity interest of South China Leasing.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

49. ACQUISITION OF SUBSIDIARIES (continued)

(1) (continued)

The net assets acquired in the above transactions 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	231	–	231
Investment property	833	–	833
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
Minority interests			(2,722)
			4,084
Total consideration satisfied by:			
Interest in an associate			2,613
Cash consideration paid			1,471
			4,084
Net cash inflow arising on acquisition:			
Cash consideration paid			(1,471)
Bank balances and cash			7,137
			5,666

49. ACQUISITION OF SUBSIDIARIES (continued)

(1) (continued)

South China Leasing contributed approximately HK$2,626,000 to the revenue and incurred net loss of approximately HK$1,777,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

(2) In February 2005, the Group acquired 461,833,761 shares of GDC, representing approximately a 57.7% of the then issued share capital of GDC through share exchange of 138,550,125 shares of the Company. Subsequently in February and March 2005, the Group further acquired in aggregate of 196,632,262 shares of GDC, representing approximately a 24.5% of the issued share capital of GDC through share exchange of 58,989,677 shares of the Company. On 7 September 2005, the Group placed 58,000,000 shares of GDC, representing approximately a 7.24% of the issued share capital of GDC to eight independent third parties (the "placees"). As at 31 December 2005, the Group held an aggregate of 600,466,023 shares of GDC, representing approximately 74.9% of the issued share capital of GDC.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2005

49. ACQUISITION OF SUBSIDIARIES (continued)

(2) (continued)

The net assets acquired in the above purchase transactions, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination and fair value HK$'000
Net assets acquired:	
Property, plant and equipment	13,093
Other non-current assets	410
Deferred tax assets	151
Inventories	5,233
Production work in progress	24,765
Trade and other receivables	11,442
Bank balances and cash	4,926
Trade and other payables	(88,407)
Bank borrowings	(26,400)
Bank overdrafts	(1,223)
	(56,010)
Goodwill	209,950
	153,940

	Fair value HK$'000
Total consideration, satisfied by:	
– share exchange *(Note)*	153,349
– cash	591
	153,940

Net cash inflow arising on acquisition:

Cash consideration paid	(591)
Bank balances and cash	4,926
Bank overdrafts	(1,223)
	3,112

49. ACQUISITION OF SUBSIDIARIES (continued)

(2) (continued)

Note: The consideration of HK$153,349,000 of share exchange was determined by the Directors of the Company 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 qualified 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 year ended 31 December 2005, the Directors of the Company 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 of the Company identified an impairment loss in respect of goodwill of approximately HK$191,457,000, such amount is dealt with in the consolidated income statement for the year ended 31 December 2005.

GDC contributed HK$28,814,000 to the revenue and incurred net loss of HK$66,296,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisitions had been completed on 1 January 2005, total revenue for the Group for the year would have been HK$49,303,000 and net loss for the year would have been HK$330,236,000. The pro forma 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.

50. LITIGATIONS

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

Since November 2004, P&PM and WAMC issued a summary summons and then modified their claims against GDC Entertainment in the Court of Commerce of Angouleme (France) for breach of the Co-production Agreement.

50. LITIGATIONS (continued)

(i) (continued)

In relation to their claims, the Group's French legal adviser holds his opinion that (i) in any event, the summary judgements to be rendered shall be very difficult or at least costly to P&PM and WAMC and (ii) the enforcement of the claim should only be limited to the assets of GDC Entertainment.

Accordingly, the Directors consider that the claims made by P&PM and WAMC have no material financial impact to the Group and no provision for this litigation is considered necessary.

Arbitration proceedings were commenced by GDC Entertainment against P&PM and WAMC in Hong Kong by way of a notice of arbitration dated 16 June 2005. In the arbitration, issues will be raised by GDC Entertainment as to whether P&PM and/or WAMC was in repudiatory breach of the Co-production Agreement which entitled GDC Entertainment to terminate the same and claim damages from P&PM and WAMC. Pleadings have not yet exchanged in the arbitration. P&PM and WAMC have applied to the arbitrator for the determination of a preliminary issue as to whether the arbitrator has jurisdiction to hear the dispute which GDC Entertainment will refer to the arbitrator in the arbitration. The hearing of the application was held on 20 January 2006 As at the date of this report, the arbitrator has issued the arbitrator's decision and concluded that the arbitrator has jurisdiction to determine the disputes referred to the arbitrator in GDC Entertainment's Notice of Arbitration.

(ii) During the year, a court order was issued from a court in Shanghai against Institute of Digital Media Technology (Shenzhen) Limited ("IDMT Shenzhen"), a subsidiary of the Company, in respect of a loan amounting to RMB9,262,000 payable to 上海新長寧(集團)有限公司. Accordingly to the court order, the assets of IDMT Shenzhen amounting to RMB9,262,000 were frozen. On 1 March 2006, IDMT Shenzhen and 上海新長寧(集團)有限公司entered into a mutual settlement agreement and RMB3 million was subsequently repaid after the year ended 31 December 2005 based on the agreed repayment schedule. Such amount was provided in the consolidated financial statements of the Company as at 31 December 2005. The court order for the cancellation of such dispute has been issued from the court on 14 March 2006.

51. MAJOR NON CASH TRANSACTIONS

For the year ended 31 December 2005, the major non-cash transactions were as follows:

(i) Part of the consideration of the acquisition of a subsidiary during the year was through share exchange at approximately HK$153,349,000. Further details of the acquisition are set out in Note 49.

(ii) 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$8,994,000.

For the year ended 31 December 2004, there were no major non-cash transactions.

52. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$5,411,000 (2004: HK$12,736,000). All of the properties held have committed tenants for the next one to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005 HK$'000	2004 HK$'000
Within one year	3,108	2,934
In the second to fifth years inclusive	678	1,240
	3,786	4,174

The Group as lessee

Minimum lease payments paid under operating lease in respect of office premises during the year was HK$1,947,000 (2004: HK$841,000).

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

	2005 HK$'000	2004 HK$'000
Within one year	1,917	–
In the second to fifth years inclusive	4,936	–
	6,853	–

Operating lease payments represent rentals payable by the Group for certain of its office premises, production studio, training centers, warehouse and staff quarters. Leases for properties are negotiated for a term ranging from one to five years with fixed rentals.

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For the Year Ended 31 December 2005

53. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	HK$'000
The Group's share of the capital commitments of its jointly controlled entity contracted but not provided for	**1,653**	7,066

54. OTHER COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Expenditure contracted for but not provided in the financial statements in respect of film production costs and advertising expenditure	**1,690**	11,207

55. SHARE OPTIONS SCHEMES

On 7 June 2002, the share option scheme (the "Old Scheme") of the Company adopted on 8 September 1993 ceased to operate and a new share option scheme (the "New Scheme") has been adopted to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. No share options under the Old Scheme were outstanding as at 1 January 2002 and no share option was granted by virtue of the Old Scheme for the period from 1 January 2002 and up to 7 June 2002, being the date of termination of the Old Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or its associated companies. Eligible participants of the New Scheme included Directors (including executive and non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates. The New Scheme became effective on 7 June 2002, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

55. SHARE OPTIONS SCHEMES (continued)

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of the passing of such resolution. At 8 June 2004, the total number of shares available for issue under the New Scheme was 93,931,666, which represented approximately 10% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised under the New Scheme at any time within 10 years from the date of the options granted.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

Share options of the New Scheme were vested in three years from the date of grant and all these share options were cancelled during the year.

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55. SHARE OPTIONS SCHEMES (continued)

The following table discloses the details of the share options and movements in such holdings during the years ended 31 December 2005 and 2004:

Grantees	Date of grant	Exercisable period	Exercise price per share HK$	At 1.1.2005	Transfer during the year *(Note (a))*	Granted during the year	Exercised during the year	Cancelled during the year	At 31.12.2005
				Number of share options					
Directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	75	–	–	–	–	75
	6.3.2003	6.3.2003 – 5.3.2013	0.76	604	–	–	–	–	604
	8.6.2004 *(Note (b))*	8.6.2004 – 7.6.2014	0.82	71,202,000	–	–	–	(71,202,000)	–
Former directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	–	–	–	–	–	–
	6.3.2003	6.3.2003 – 5.3.2013	0.76	–	–	–	–	–	–
Employees	23.8.2002	23.8.2002 – 6.6.2012	0.73	–	–	–	–	–	–
	6.3.2003	6.3.2003 – 5.3.2013	0.76	1,330,000	–	–	–	–	1,330,000
	8.6.2004 *(Note (b))*	8.6.2004 – 7.6.2014	0.82	14,584,000	(14,584,000)	–	–	–	–
Others	23.8.2002	23.8.2002 – 6.6.2012	0.73	–	–	–	–	–	–
	6.3.2003	6.3.2003 – 5.3.2013	0.76	–	–	–	–	–	–
	8.6.2004 *(Note (b))*	8.6.2004 – 7.6.2014	0.82	–	14,584,000	–	–	(14,584,000)	–
				87,116,679	–	–	–	(85,786,000)	1,330,679

Grantees	Date of grant	Exercisable period	Exercise price per share HK$	At 1.1.2004	Transfer during the year *(Note (a))*	Granted during the year	Exercised during the year	At 31.12.2004
				Number of share options				
Directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	31,431,112	(6,455,735)	–	(24,975,302)	75
	6.3.2003	6.3.2003 – 5.3.2013	0.76	10,762,283	(1,822,944)	–	(8,938,735)	604
	8.6.2004 *(Note (b))*	8.6.2004 – 7.6.2014	0.82	–	–	71,202,000	–	71,202,000
Former directors	23.8.2002	23.8.2002 – 6.6.2012	0.73	16,557,358	8,278,679	–	(24,836,037)	–
	6.3.2003	6.3.2003 – 5.3.2013	0.76	–	8,278,679	–	(8,278,679)	–
Employees	23.8.2002	23.8.2002 – 6.6.2012	0.73	4,000,000	(4,000,000)	–	–	–
	6.3.2003	6.3.2003 – 5.3.2013	0.76	5,120,000	(3,460,000)	–	(330,000)	1,330,000
	8.6.2004 *(Note (b))*	8.6.2004 – 7.6.2014	0.82	–	–	14,584,000	–	14,584,000
Others	23.8.2002	23.8.2002 – 6.6.2012	0.73	1,822,944	2,177,056	–	(4,000,000)	–
	6.3.2003	6.3.2003 – 5.3.2013	0.76	13,085,735	(2,995,735)	–	(10,090,000)	–
				82,779,432	–	85,786,000	(81,448,753)	87,116,679

55. SHARE OPTIONS SCHEMES (continued)

Notes:

(a) Transfer of share options upon the termination of services of certain directors and employees during the year.

(b) The options granted may be exercised in accordance with the terms of the relevant scheme as to:

(i) The first tranche of 34,314,400 options will be exercisable after the expiry of 12 months from the date of grant;

(ii) The second tranche of 25,735,800 options will be exercisable after the expiry of 24 months from the date of grant;

(iii) The third tranche of 25,735,800 options will be exercisable after the expiry of 36 months from the date of grant; and

(iv) The options will expire after ten years from date of grant, i.e. 7 June 2014.

No consideration received during the year from employees for taking up the options granted (2004: HK$5).

During the year ended 31 December 2004, options were granted on 8 June 2004. The estimated fair value of the options granted on the date is HK$40,319,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2004
Weighted average share price	HK$0.55
Exercise price	HK$0.82
Expected volatility	74%
Expected life	10 years
Risk-free rate	4.67%
Expected dividend yield	Nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expenses of HK$25,456,000 for the year ended 31 December 2005 (2004: HK$14,863,000) in relation to share options of the Company.

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56. RETIREMENT BENEFIT SCHEMES

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and Singapore. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries in the PRC participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong, the PRC and Singapore (collectively the "Retirement Schemes"). Contributions totalling HK$91,000 (2004: HK$95,000) payable to the Retirement Schemes at 31 December 2005 are included in other payables and accrued charges. There was no forfeited contribution throughout the year (2004: Nil).

57. POST BALANCE SHEET EVENTS

On 27 September 2005, the Group entered into an agreement with China Life Insurance (Overseas) Company Limited ("CLIO") in relation to the subscription of new shares in CLIO ("Subscription Agreement") and on 26 January 2006, the Group announced that the Subscription Agreement was terminated. Neither the Group nor CLIO is entitled to claim the other party for any losses, damages and expenses as a result of termination.

58. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties.

	2005 HK$'000	2004 HK$'000
(a) Rental expenses charged by Winluck Properties Limited a subsidiary of Shougang Holding	**1,154**	594
(b) Rental expenses charged by Gold Regal Limited a subsidiary of Shougang Holding	**108**	132
(c) Consultancy expense charged by Shougang Holding	**960**	960
(d) Management fee charged by Shougang Concord International Enterprises Company Limited, a subsidiary of Shougang Holding	**300**	–
(e) Interest expense charged by Shougang (Hong Kong) Finance Limited, a fellow subsidiary of the Company	**247**	–
(f) Interest expense charged by Bright Oceans Corporation (HK) Limited, a shareholder of the Company	**261**	–
(g) Interest expense charged by Mr. Anthony Francis Neoh a shareholder of the Company	**1,592**	–
(h) Interest expense charged by Madam Chan Wing Yee, Betty, spouse of Mr. Anthony Francis Neoh	**69**	–

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58. RELATED PARTY TRANSACTIONS (continued)

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is a part of a larger group of companies under Shougang Corporation which is controlled by the PRC government. The Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in Notes 40 and 41.

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Direct subsidiary				
SCG Investment (BVI) Limited	BVI	HK$100,000	100%	Investment holding
Indirect subsidiaries				
首方投資管理(深圳)有限公司	The PRC *(Note (b))*	RMB65,887,400	100%	Investing holding
Dunley Developments Limited	BVI	US$1	100%	Investment holding
Ecko Limited	Hong Kong	HK$2	100%	Property management

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59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital (Note (a))	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
Eldex Investment Company Limited	Hong Kong	HK$541,000 (ordinary) HK$1,459,000 (non-voting deferred)	100%	Property investment
GDC Asset Management Limited	BVI	US$1	100%	Investment holding
GDC (BVI) Limited	BVI	US$5,214,181	100%	Investment holding
GDC Capital Limited	Hong Kong	HK$2	100%	Inactive
GDC China Limited	Hong Kong	HK$2	100%	Investment holding
GDC Entertainment Limited	BVI	US$3,510	100%	Animation investment, licensing and merchandising distribution
GDC Holdings Limited	BVI	US$5,214,181	100%	Investment holding

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59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
GDC International Limited	Samoa	US$1	100%	Provision of Computer graphic animation creation and production services
GDC Technology Limited	BVI	US$1	100%	Provision of computing solutions for digital content distribution and exhibitions
GDC Technology Pte. Limited	Singapore	US$2	100%	Provision of computing solutions for digital content distribution and exhibitions
Global Digital Creations Holdings Limited	Bermuda	HK$8,008,200	75%	Investment holding
Grand Award Limited	BVI	US$1	100%	Investment holding
Grand Park Investment Limited	Hong Kong	HK$2	100%	Property investment
Grand Phoenix Limited	BVI	US$1	100%	Investment holding

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59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
環球數碼媒體科技(上海)有限公司	The PRC *(Note (b))*	US$140,000	100%	Provision of computer graphics and animation training
環球數碼媒體科技研究(深圳)有限公司	The PRC *(Note (b))*	US$2,000,000	100%	Provision of computer graphics and animation training, development of multimedia software and hardware, and provision of related technical consultancy services
Jeckman Holdings Limited	BVI	US$16	100%	Investment holding
Linksky Limited	Hong Kong	HK$2	100%	Property holding
Long Cosmos Investment Limited	Hong Kong	HK$2	100%	Provision of management services
Lyre Terrace Management Limited	Hong Kong	HK$1,000,000	100%	Investment holding and property investment

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For the Year Ended 31 December 2005

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ contributed capital *(Note (a))*	Proportion of nominal value of issued share capital held by the Company	Principal activities
Indirect subsidiaries (continued)				
On Hing Investment Company, Limited	Hong Kong	HK$1,000 (ordinary) HK$2,000,000 (non-voting deferred)	100%	Property investment
SCG Financial Investment Limited	BVI	US$1,000	100%	Investment holding
SCG Leasing Corporation Limited	Hong Kong	HK$2	100%	Property investment
South China International Leasing Company Limited	The PRC *(Note (c))*	RMB50,143,403	60%	Leasing of property, plant and equipment
Strenbeech Limited	BVI/ Hong Kong	HK$147,000,078	100%	Property investment
Tin Fung Investment Company, Limited	Hong Kong	HK$975,000 (ordinary) HK$210,000 (non-voting deferred)	100%	Property investment
Upper Nice Assets Limited	BVI	US$1	100%	Investment holding
四方源創國際影視文化傳播(北京)有限公司	The PRC *(Note (c))*	RMB7,945,000	80%	Production of films and television drama series

Note:

(a) All issued share capital are ordinary shares unless otherwise stated.

(b) These entities are wholly foreign owned enterprises.

(c) These entities are sino-foreign equity joint ventures/enterprises.

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

60. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005	2004
	HK$'000	HK$'000
Interests in subsidiaries	**231,154**	333,162
Amounts due from subsidiaries	**–**	13,202
Other current assets	**78**	112,921
Amounts due to subsidiaries	**(15,548)**	(13,609)
Other current liabilities	**(50,448)**	(16,143)
Other non-current liabilities	**(33,570)**	(90,000)
	131,666	339,533
Share capital	**11,369**	9,393
Reserves	**120,297**	330,140
Equity attributable to equity holders of the parent	**131,666**	339,533