NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed 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 appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. In the current period, the Group started to generate subcontracting revenue from computer graphic ("CG") creation and production. Details of the accounting policy are described below.

Subcontracting revenue from CG creation and production

Revenue and costs from a subcontracting contract are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from contract customers under production work in progress. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to contract customers. Amounts received before the related work is performed are included in the balance sheet, as a liability, as income received in advance. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for accounting periods beginning on or after 1 December 2005. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosure[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 March 2006.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.

3. SEGMENT INFORMATION

Business segments

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, revenue arising on CG films and television drama production income, training fee, property leasing and management fee income, technical service income and equipment leasing income during the period.

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

The Group was also involved in the finance leasing business. That operation was discontinued in June 2006 in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 5 "Non-current Assets Held For Sale and Discontinued Operations" as it was carried out by an associate of the Group thereafter. Details of which are set out in note 7(b).

3. SEGMENT INFORMATION (continued)

Business segments (continued)

Segment information about these divisions is presented below:

Six months ended 30 June 2006

	Continuing operations					Discontinued operation	
	Property leasing and building management services *HK$'000*	Digital content distribution and exhibition *HK$'000*	CG creation and films and television drama production *HK$'000*	CG training courses *HK$'000*	Total *HK$'000*	Finance leasing *HK$'000*	Consolidated *HK$'000*
REVENUE	2,785	4,868	19,686	3,887	31,226	13,638	44,864
RESULT							
Segment result	8,110	(6,330)	(7,368)	(34)	(5,622)	(4,359)	(9,981)
Unallocated corporate income					12,460	–	12,460
Unallocated corporate expenses					(14,663)	–	(14,663)
Finance costs					(5,059)	–	(5,059)
Share of result of a jointly controlled entity	723	–	–	–	723	–	723
Share of results of associates					(437)	–	(437)
Gain on disposal of partial interests in subsidiaries					–	24,711	24,711
(Loss) profit before taxation					(12,598)	20,352	7,754
Income tax expense					(130)	–	(130)
(Loss) profit for the period					(12,728)	20,352	7,624

3. SEGMENT INFORMATION (continued)

Business segments (continued)

Six months ended 30 June 2005

	Continuing operations					Discontinued operation	
	Property leasing and building management services	Digital content distribution and exhibition	CG creation and films and television drama production	CG training courses	Total	Finance leasing	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	2,739	4,490	3,751	1,822	12,802	–	12,802
RESULT							
Segment result	13,317	(5,203)	(28,793)	(85)	(20,764)	127	(20,637)
Unallocated corporate income					1,041	–	1,041
Unallocated corporate expenses					(24,051)	–	(24,051)
Finance costs					(3,285)	–	(3,285)
Share of result of a jointly controlled entity	337	–	–	–	337	–	337
Share of result of an associate					(248)	–	(248)
Impairment loss on goodwill arising from acquisition of a subsidiary	–	–	(129,950)	–	(129,950)	–	(129,950)
(Loss) profit before taxation					(176,920)	127	(176,793)
Income tax expense					(501)	–	(501)
(Loss) profit for the period					(177,421)	127	(177,294)

4. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	**5,029**	3,057
Other finance costs	**30**	228
	5,059	3,285

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

During the six months ended 30 June 2005, the Group acquired 658,466,023 shares, representing 82.2% of the issued share capital, of Global Digital Creations Holdings Limited ("GDC"). GDC is incorporated in Bermuda and its shares are listed on the Growth Enterprise Market 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.

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$129,950,000, such an amount was dealt with in the condensed consolidated income statement for the six months ended 30 June 2005.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Continuing operations		
Current tax:		
Hong Kong	**320**	90
Deferred taxation:		
Current period	**(190)**	411
Income tax expense relating to continuing operations	**130**	501

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

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

No provision for the Enterprise Income Tax of the People's Republic of China (the "PRC", which for the purpose of this report, does not include Hong Kong, Macau and Taiwan) was made in the financial statements as the Group's subsidiaries operating in the PRC either have no assessable profit for the six months ended 30 June 2006 and 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.

7. ACQUISITION OF A SUBSIDIARY AND DISCONTINUED OPERATION

(a) Acquisition

In July 2005, the Group entered into an agreement to acquire the entire interest in Valuework Investment Holdings Limited ("Valuework"), which holds a 20% equity interest in South China International Leasing Company Limited ("South China Leasing"), which is established in the PRC with principal activities in granting leasing advances to customers and 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, at a consideration of approximately HK$1,460,000 (the "Acquisition"). The consideration of the Acquisition has been fully settled by the Group to the vendor in January 2006 and since then the Group's effective interest in South China Leasing has increased from 60% to 80%.

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

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Interest in South China Leasing	457	4,361	4,818
Bank balances and cash	65	–	65
Other payables and accruals	(4,510)	–	(4,510)
	(3,988)	4,361	373
Goodwill			1,087
Total consideration, satisfied by cash			1,460
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,460)
Cash and cash equivalents acquired			65
			(1,395)

The goodwill arising on the acquisition of Valuework is attributable to the anticipated profitability and the anticipated future operating cash flows from the equity interest in South China Leasing.

Valuework did not contribute any revenue and loss before taxation to the Group for the period between the date of acquisition and the balance sheet date.

7. ACQUISITION OF A SUBSIDIARY AND DISCONTINUED OPERATION (continued)

(b) Discontinued operation

In June 2006, the Group entered into a sale and purchase agreement in respect of a disposal of the Group's 30% effective interest in South China Leasing at a consideration of HK$25,000,000 (the "Disposal"). Upon the completion of the Disposal, the Group's effective interest in South China Leasing decreased from 80% to 50% and South China Leasing became an associate of the Group. Accordingly, the finance leasing business was carried out by the associate of the Group and became a discontinued operation. Details of the Disposal are set out in the circular of the Company dated 6 July 2006.

The profit for the period from the discontinued operation is analysed as follows:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
(Loss) profit of finance leasing business	**(4,359)**	127
Gain on disposal of partial interests in subsidiaries	**24,711**	–
	20,352	127

The results of the finance leasing business for the period from 1 January 2006 to 15 June 2006, which have been included in the condensed consolidated income statement, were as follows:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Revenue	**13,638**	–
Cost of sales	**(9,750)**	–
Gross profit	**3,888**	–
Other income	**460**	508
Administrative expenses	**(8,707)**	(381)
(Loss) profit for the period	**(4,359)**	127

7. ACQUISITION OF A SUBSIDIARY AND DISCONTINUED OPERATION (continued)

(b) Discontinued operation (continued)

The net assets of the finance leasing business at the date of disposal were as follows:

	HK$'000
Net assets disposed of	59,322
Attributable goodwill	1,087
	60,409
Gain on disposal	24,711
Amount due to a group company previously eliminated on consolidation	(58,189)
Interests in associates	(2,456)
Total cash consideration	24,475
Satisfied by:	
Cash	25,000
Direct transaction costs	(525)
	24,475
Net cash outflow arising on disposal:	
Net cash consideration	24,475
Bank balances and cash disposed of	(43,491)
	(19,016)

8. PROFIT (LOSS) FOR THE PERIOD

	Continuing operations Six months ended 30 June		Discontinued operation Six months ended 30 June		Consolidated Six months ended 30 June	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit (loss) for the period has been arrived at after charging:						
Allowance for bad debts	**–**	–	**4,649**	–	**4,649**	–
Depreciation of property, plant and equipment	**3,430**	3,539	**637**	–	**4,067**	3,539
and after crediting:						
Dividend income from an associate held for sale	**5,434**	–	**–**	–	**5,434**	–
Dividend income from investments held for trading	**–**	41	**–**	–	**–**	41
Increase in fair value of investments held for trading	**686**	228	**–**	–	**686**	228
Interest income from bank deposits	**125**	914	**1**	–	**126**	914
Gain on disposal of property, plant and equipment	**–**	36	**–**	–	**–**	36

9. DIVIDEND

No dividend was paid during the six months ended 30 June 2006 and 2005. The directors do not recommend the payment of an interim dividend.

10. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

The calculation of the basic earnings (loss) per share is based on the profit for the period attributable to equity holders of the parent of approximately HK$8,553,000 (30 June 2005: loss of HK$176,972,000) and on approximately 1,136,856,000 shares (30 June 2005: weighted average of approximately 1,080,176,000 shares) in issue during the period.

No diluted earnings per share has been presented because the exercise price of the Company's share options was higher than the average market price of share for the six months ended 30 June 2006.

No diluted loss per share has been presented for the six months ended 30 June 2005 because the exercise of the Company's share options could result in a decrease in the loss per share.

10. EARNINGS (LOSS) PER SHARE (continued)

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to equity holders of the parent is based on the following data:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Profit (loss) for the period attributable to equity holders of the parent	**8,553**	(176,972)
Less: profit for the period from the discontinued operation	**(20,352)**	(127)
Loss for the purposes of basic loss per share from continuing operations	**(11,799)**	(177,099)

The denominators used are the same as those detailed above for basic earnings (loss) per share for continuing and discontinued operations.

From discontinued operation

Basic earnings per share for the discontinued operation is HK$1.79 cents per share (30 June 2005: HK$0.01 cent per share), based on the profit for the period from the discontinued operation of approximately HK$20,352,000 (30 June 2005: HK$127,000). The denominators used are the same as those detailed above for basic earnings (loss) per share for continuing and discontinued operations.

11. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, a building with a carrying amount of approximately HK$15,373,000 and the corresponding prepaid lease payments with a carrying amount of approximately HK$4,781,000 were transferred to an investment property. This property was leased by the Group to South China Leasing during the six months ended 30 June 2006 and for the year ended 31 December 2005. Upon the completion of the Disposal, South China Leasing became an associate of the Group, and this property was considered as leased out for rental income and therefore transferred to as an investment property. Upon the transfer, the building and prepaid lease payments have been valued by AA Property Services Limited, an independent professional valuer not connected with 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 price for a similar property. The resulting surplus of approximately HK$146,000 in relation to the corresponding prepaid lease payments has been credited to the condensed consolidated income statement.

11. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS (continued)

The fair value of the Group's investment properties at 30 June 2006 has been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited. The valuation, which conforms to the HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. The resulting increase in fair value of investment properties of approximately HK$5,800,000 (30 June 2005: HK$10,400,000) has been recognised directly in the condensed consolidated income statement.

12. ADVANCE TO AN ASSOCIATE

The amount is secured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the Company will not demand repayment within one year from the balance sheet date and is therefore considered as non-current. Such non-interest bearing advance is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The effective interest rate used was 6%, which approximates to the prevailing market borrowing rate of interest for a similar instrument.

13. TRADE RECEIVABLES

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

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
0 – 90 days	**840**	5,283
91 – 180 days	**2,169**	1,455
Over 181 days	**–**	351
	3,009	7,089

14. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured and is repayable on demand. Except for an amount of approximately HK$1,970,000 which is non-interest bearing, the remaining amount is bearing interest at prevailing market rate per annum.

15. TRADE PAYABLES

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

	30 June 2006 HK$'000	31 December 2005 HK$'000
0 – 90 days	**1,165**	4,368
91 – 180 days	**559**	16
Over 181 days	**–**	40
	1,724	4,424

16. BORROWINGS

During the period, the Group obtained new loans of approximately HK$857 million (31 December 2005: HK$21 million) and repaid loans of approximately HK$99 million (31 December 2005: HK$66 million) in accordance with the repayment terms. All loans bear interest at market rates and are repayable over a period of 5 years.

17. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount is unsecured, bearing interest at prevailing market rate per annum and is repayable on 31 March 2008.

18. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		**Amount**	
	30 June 2006	31 December 2005	**30 June 2006 HK$'000**	31 December 2005 HK$'000
Authorised:				
At beginning and end of the period/year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning of the period/year	**1,136,856,469**	939,316,667	**11,369**	9,393
Issue in consideration for acquisition of the issued share capital of GDC	**–**	197,539,802	**–**	1,976
At the end of the period/year	**1,136,856,469**	1,136,856,469	**11,369**	11,369

19. PLEDGE OF ASSETS

At 30 June 2006, the Group's investment properties and land and buildings with an aggregate carrying amount of approximately HK$70 million (31 December 2005: HK$86 million) were pledged to banks for bank loans. At 30 June 2006, the outstanding amounts of such bank loans were HK$50 million (31 December 2005: HK$40 million).

20. CAPITAL COMMITMENTS

The Group had the following commitments at the balance sheet date:

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
The Group's share of the jointly-controlled entity's capital commitments contracted but not provided for	**–**	1,653

21. OTHER COMMITMENTS

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Expenditure contracted for but not provided in the financial statements in respect of film production costs and advertising expenditure	**–**	1,690

22. LITIGATION

On 14 May 2003, GDC Entertainment Limited ("GDC Entertainment"), a subsidiary of the Group, 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 the breach of the Co-production Agreement. In June 2005, GDC Entertainment filed an appeal to the Court of Appeals of Bordeaux against the decision of the President of the Court of Commerce of Angouleme (France) from appointing an expert to audit the implementation of the Co-production Agreement. In February 2006, both P&PM and WAMC modified their claims to provisional amount from Euro 5 million to approximately Euro 2,281,000 and Euro 269,000, respectively, as damages, plus reimbursement of their entire expenses of the proceedings and compensation of Euro 100,000 for each use of any property or reference in relation to this animated television series and Euro 15,000 for each day of delay for transmission of possession of this animated television series after the conclusion of the judgment.

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22. LITIGATION (continued)

At the balance sheet date, both proceedings on the merits before the Court of Commerce of Angouleme (France) and summary proceedings before the Court of Appeals of Bordeaux are not yet concluded. In relation to the claims made by P&PM and WAMC, the French legal adviser feels that the judgment may not be favourable to GDC Entertainment but holds his opinion that the enforcement of the claims made by P&PM and WAMC should only be limited to the assets of GDC Entertainment. In the opinion of the directors, as the proceedings may last for a long period of time before final conclusion and enforcement and no reliable estimate can be made to determine the possible outcomes from the proceeding judgements, and in view of the fact that GDC Entertainment did not carry material assets as at 30 June 2006 such that the claims made by P&PM and WAMC would not result in any significant outflow of resources from the Group upon the settlement of damages, if any, no provision for this litigation is considered necessary.

On the other hand, Arbitration proceedings were commenced by GDC Entertainment against P&PM and WAMC in Hong Kong by way of 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 claim of 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 she has jurisdiction to hear the dispute which GDC Entertainment will refer to her in the arbitration. The hearing of the application was held on 20 January 2006. The arbitrator has issued her decision and concluded that she has jurisdiction to determine the disputes referred to her in GDC Entertainment's Notice of Arbitration. The arbitrator has further awarded costs in relation to the application in favour of GDC Entertainment. Since then, none of the parties have taken any steps to further advance the arbitration.

23. POST BALANCE SHEET EVENTS

(a) On 6 July 2006, the Company and GDC jointly announced that GDC agreed to transfer 16,000,000 shares in the issued share capital of GDC Technology Limited ("GDC Technology"), an indirect subsidiary of the Company, to certain directors of GDC and GDC Technology for an aggregate cash consideration of HK$1,600,000. Upon completion of the transfer, effective interest held by the Company in GDC Technology will be decreased from 74.98% to 63.73% and GDC Technology is still an indirect subsidiary of the Company.

(b) On 1 September 2006, the Company issued a circular to provide the shareholders of the Company with information regarding the adoption of the share option scheme of GDC Technology, the proposed grant of options under the share option scheme of GDC Technology and the refreshment of the 10% general limit on grant of options under the share option scheme of GDC and all transactions proposed in the circular have been approved by the shareholders of the Company and GDC at the respective special general meetings held on 19 September 2006.

24. RELATED PARTY TRANSACTIONS

(a) Apart from details of the balances with related parties disclosed in the condensed consolidated balance sheet on pages 5 and 6 in notes 12, 14 and 17, the Group also entered into the following transactions with related parties during the period:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Rental expenses charged by Winluck Properties Limited, a subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), the controlling shareholder of the Company	**692**	577
Consultancy expenses charged by Shougang Holding	**480**	480
Management fee charged by Shougang Concord International Enterprises Company Limited, a subsidiary of Shougang Holding	**300**	–
Interest expense charged by Shougang (Hong Kong) Finance Limited, a subsidiary of Shougang Holding	**907**	–
Interest expenses charged by Mr. Anthony Francis Neoh ("Mr. A. Neoh"), a shareholder of the Company	**1,159**	552
Interest expenses charged by Ms. Chan Wing Yee, Betty, spouse of Mr. A Neoh	**49**	25

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**2,978**	2,580

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.