## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30TH JUNE, 2005*

**1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**2. PRINCIPAL ACCOUNTING POLICIES**

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

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

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. In particular, the presentation of minority interests and share of tax of a jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

**(i) Business Combinations**

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

**Goodwill**

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill arising from the acquisition of subsidiaries since 1st January, 2005, goodwill is capitalised and is subject to the test for impairment at least annually in the financial year in which the acquisition takes place. The adoption of HKFRS 3 has had no material impacts on the Group's results.

**Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")**

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves. The Group has derecognised all negative goodwill at 1st January, 2005 of which negative goodwill of HK$1,720,000 was previously recorded in reserves, with a corresponding increase to accumulated profits.

**(ii) Financial instruments**

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects on the Group as a result of implementation of HKAS 32 and HKAS 39 are summarised below:

**Classification and measurement of financial assets and financial liabilities**

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

On or before 31st December, 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, the Group's investments in debt or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1st January, 2005 onwards, the Group classifies and measures its investments in debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its investments in debt and equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under non-current assets with carrying amounts of approximately HK$6.1 million were reclassified to available-for-sale investments. An adjustment of approximately HK$1,028,000 to the previous carrying amounts of assets at 1st January, 2005 has been made to the Group's investments revaluation reserve.

**Financial assets and financial liabilities other than debt and equity securities**

From 1st January, 2005 onwards, the Group classifies and measures 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 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 "financial liabilities other than financial liabilities at fair value through profit or loss ". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

**(iii) Owner-occupied leasehold interest in land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and is stated at cost or valuation less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease premium for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Since the Group is unable to allocate lease payments between the land and buildings elements reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of HKAS 17 has had no material impacts on the Group's results.

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

The effects of the changes in the accounting policies described in note 2 above on the balance sheet items are as follows:

| | **As at 31.12.2004 and 1.1.2005 (originally stated)** | **Adjustments** | **As at 1.1.2005 (restated)** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Available-for-sale investments | – | 7,128 | 7,128 |
| Investment securities | 6,100 | (6,100) | – |
| Net effects on assets and liabilities | 6,100 | 1,028 | 7,128 |
| Investments revaluation reserve | – | 1,028 | 1,028 |
| Goodwill reserve | 1,720 | (1,720) | – |
| Accumulated losses | (17,427) | 1,720 | (15,707) |
| Net effects on total equity | (15,707) | 1,028 | (14,679) |

The application of the new HKFRSs has had no effect to the Group's equity at 1st January, 2004.

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

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

## 4. SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to profit from operations by business segment is as follows:

**For the six months ended 30th June, 2005**

| | **Advertising and promotional services** | **Film distribution and licensing** | **Film processing** | **Elimination** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | | | | | |
| External revenue | **5,024** | **3,873** | **10,583** | **–** | **19,480** |
| Inter segment revenue | **284** | **413** | **75** | **(772)** | **–** |
| Total revenue | **5,308** | **4,286** | **10,658** | **(772)** | **19,480** |
| SEGMENT RESULT | **(56)** | **(6,522)** | **254** | **–** | **(6,324)** |
| Net unallocated corporate expenses | | | | | **(425)** |
| Finance costs | | | | | **(358)** |
| Share of profit of a jointly controlled entity | | | | | **29** |
| Loss before taxation | | | | | **(7,078)** |

## 4. SEGMENTAL INFORMATION (continued)

For the six months ended 30th June, 2004

| | Advertising and promotional services *HK$'000* | Film distribution and licensing *HK$'000* | Film processing *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External revenue | 3,250 | 23,690 | 10,368 | – | 37,308 |
| Inter segment revenue | 326 | 384 | 1,250 | (1,960) | – |
| Total revenue | 3,576 | 24,074 | 11,618 | (1,960) | 37,308 |
| SEGMENT RESULT | (484) | (5,620) | 511 | (1,610) | (7,203) |
| Net unallocated corporate expenses | | | | | (343) |
| Finance costs | | | | | (437) |
| Amortisation of goodwill | | | | | (150) |
| Share of results of jointly controlled entities | | | | | 488 |
| Loss before taxation | | | | | (7,645) |

## 5. LOSS BEFORE TAXATION

| | Six months ended 30th June, 2005 *HK$'000* | 2004 *HK$'000* |
|---|---|---|
| Loss before taxation has been arrived at after charging: | | |
| Depreciation and amortisation of property, plant and equipment | **1,129** | 1,122 |
| Share of income tax of a jointly controlled entity in the People's Republic of China (included in share of results of jointly controlled entities) | **14** | – |
| and after crediting: | | |
| Interest income | **23** | 22 |

## 6. TAXATION

| | Six months ended 30th June, 2005 *HK$'000* | 2004 *HK$'000* |
|---|---|---|
| Provision for Hong Kong Profits Tax | **209** | 249 |
| Deferred tax credit | **(397)** | – |
| | **(188)** | 249 |

Hong Kong Profits Tax is calculated at 17.5% (for the six months ended 30th June, 2004: 17.5%) on the estimated assessable profit for the period.

## 7. DIVIDENDS

No dividends were paid or proposed during the period.

## 8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

| | Six months ended 30th June, | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Loss for the period, attributable to the equity holders of the Company | **(6,890)** | (7,831) |
| | **Number of shares** | Number of shares |
| Number of ordinary shares for the purpose of basic earnings per share | **330,000,000** | 330,000,000 |

No disclosure of diluted earnings per share for the six months ended 30th June, 2005 and 2004 has been made as there were no potential dilutive ordinary shares outstanding during both periods.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$129,000 on the acquisition of property, plant and equipment for the expansion of the Group's operations.

## 10. INTERESTS IN JOINTLY CONTROLLED ENTITIES

At 30th June, 2005, the Group had interests in the following jointly controlled entities:

| Name of entity | Place of incorporation/ operations | Proportion of nominal value of issued capital/ registered capital held indirectly by the Company % | Nature of business |
|---|---|---|---|
| Prosper China Limited | British Virgin Islands/ Hong Kong | 40 | Investment holding |
| 北京東方新青年文化發展有限公司 | The People's Republic of China ("PRC")/PRC | 40 | Provision of cultural education courses |
| 浙江東方國際發展有限公司 | PRC/PRC | 37.5 | Hotel operations |
| 東方橫店影視後期製作有限公司 ("橫店影視制作") | PRC/PRC | 49 | Provision of film processing and post production services for films and television series but not yet commenced operation |

During the period, the Group injected an amount of HK$3,500,000 as capital injection in橫店影視制作.

## 11. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods to its trade customers normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK$6,633,000 (31.12.2004: HK$9,318,000) and their aged analysis is as follows:

| | **30th June, 2005** *HK$'000* | 31st December, 2004 *HK$'000* |
|---|---|---|
| 0 – 90 days | **5,272** | 5,951 |
| 91- 180 days | **1,327** | 1,890 |
| 181 – 365 days | **34** | 547 |
| Over 1 year | **–** | 930 |
| | **6,633** | 9,318 |

**12. AMOUNT DUE FROM A RELATED COMPANY**

The related company, 廣州東影影視出品有限公司 is beneficially owned by a brother of Mr. Wong Pak Ming, a director of the Company. The amount is unsecured, non-interest bearing and is repayable on demand.

**13. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of HK$3,972,000 (31.12.2004: HK$4,475,000) and their aged analysis is as follows:

| | **30th June, 2005** *HK$'000* | 31st December, 2004 *HK$'000* |
|---|---|---|
| 0 – 90 days | **3,972** | 4,222 |
| 91- 180 days | **–** | 253 |
| | **3,972** | 4,475 |

**14. AMOUNT DUE TO A DIRECTOR**

The amount was unsecured, interest-free and was repaid subsequent to 30th June, 2005.

**15. PLEDGE OF ASSETS**

At the balance sheet date, the Group's bank facilities are secured by the following:

(1) an unlimited corporate guarantee given by the Company; and

(2) certain of the Group's leasehold land and buildings and certain of the Group's plant, machinery and equipment with an aggregate carrying value approximately HK$4,483,000 (31.12.2004: HK$6,049,000).

**16. BANK AND OTHER BORROWINGS**

During the six months ended 30th June, 2005, the Group had obtained new bank loans amounting to approximately HK$6,598,000 and repaid bank loans amounting to approximately HK$7,749,000.