

NOTES TO THE CONDENSED FINANCIAL STATEMENTS*FOR THE SIX MONTHS ENDED 30TH JUNE, 2006***1. BASIS OF PREPARATION**

The condensed consolidated 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 (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for properties and certain financial instruments, which are measured at fair values or revalued amounts, 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 31st December, 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. 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 all the other new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of the other new HKFRSs will have no material impact on the results and financial position of the Group.

3. SEGMENTAL INFORMATION

Business segments

The Group is currently organised into three operating divisions – film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information. Segmental information about these businesses is presented below.

For the six months ended 30th June, 2006

| | Film distribution and licensing <i>HK\$'000</i> | Film processing <i>HK\$'000</i> | Advertising and promotional services <i>HK\$'000</i> | Elimination <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---------------------------------------|--|--------------------------------|--------------------------|
| REVENUE | | | | | |
| External revenue | 11,097 | 11,075 | 3,178 | – | 25,350 |
| Inter segment revenue | 76 | 186 | 1,662 | (1,924) | – |
| Total revenue | <u>11,173</u> | <u>11,261</u> | <u>4,840</u> | <u>(1,924)</u> | <u>25,350</u> |
| SEGMENT RESULT | <u>(652)</u> | <u>227</u> | <u>(333)</u> | <u>–</u> | <u>(758)</u> |
| Other income | | | | | 1,362 |
| Gain on disposal of available-for-sale investments | | | | | 4,309 |
| Unallocated corporate expenses | | | | | (616) |
| Finance costs | | | | | (132) |
| Share of results of jointly controlled entities | | | | | 518 |
| Profit before taxation | | | | | 4,683 |
| Income tax expense | | | | | (131) |
| Profit for the period | | | | | <u>4,552</u> |

3. SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

For the six months ended 30th June, 2005

| | Film distribution and licensing HK\$'000 | Film processing HK\$'000 | Advertising and promotional services HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|--|--|--------------------------------|---|-------------------------|-------------------|
| REVENUE | | | | | |
| External revenue | 3,713 | 9,392 | 4,956 | – | 18,061 |
| Inter segment revenue | 178 | 60 | 284 | (522) | – |
| Total revenue | <u>3,891</u> | <u>9,452</u> | <u>5,240</u> | <u>(522)</u> | <u>18,061</u> |
| SEGMENT RESULT | <u>(6,683)</u> | <u>(937)</u> | <u>(124)</u> | <u>–</u> | <u>(7,744)</u> |
| Other income | | | | | 1,419 |
| Unallocated corporate expenses | | | | | (424) |
| Finance costs | | | | | (358) |
| Share of results of jointly controlled entities | | | | | 29 |
| Loss before taxation | | | | | (7,078) |
| Income tax expense | | | | | 188 |
| Loss for the period | | | | | <u>(6,890)</u> |

4. PROFIT (LOSS) BEFORE TAXATION

| | Six months ended 30th June, | |
|--|--------------------------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |

Profit (loss) before taxation has been arrived at after charging:

| | | |
|--|-------|-------|
| Depreciation of property, plant and equipment | 1,014 | 1,091 |
| Amortisation of prepaid lease payments | 37 | 37 |
| Share of tax of jointly controlled entities (included in share of results of jointly controlled entities) | 255 | 14 |
| Impairment loss recognised in respect of film production in progress | 1,319 | 2,479 |
| Impairment on trade and other receivables | 1,358 | 1,358 |

and after crediting:

| | | |
|-----------------|------------|-----------|
| Interest income | <u>157</u> | <u>23</u> |
|-----------------|------------|-----------|

5. INCOME TAX EXPENSE

| | Six months ended 30th June, | |
|--------------------------------|--------------------------------|--------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| The charge (credit) comprises: | | |
| Hong Kong Profits Tax | 583 | 209 |
| Deferred tax credit | <u>(452)</u> | <u>(397)</u> |
| | <u>131</u> | <u>(188)</u> |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30th June, 2006 and 2005.

6. DIVIDENDS

No dividends were paid or proposed during the period.

7. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$4,552,000 (2005: loss of HK\$6,890,000) and on 330,000,000 (2005: 330,000,000) ordinary shares in issue during the period.

Diluted earnings per share is not presented as the 2,624,000 share options granted to directors and employees on 23rd June, 2006 are anti dilutive in terms of HKAS 33 "Earnings per share".

8. INTERESTS IN JOINTLY CONTROLLED ENTITIES

At 30th June, 2006, the Group had interests in the following jointly controlled entities:

| Name of entity | Place of incorporation/ operations | Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company % | Nature of business |
|---|---|--|---|
| Prosper China Limited | British Virgin Islands ("BVI")/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 |
| 東方橫店影視後期制作有限公司 | PRC/PRC | 49 | Provision of film processing and post production services for films and television series but not yet commenced operation |
| Dong Tian Motion Picture Investment Limited | BVI/PRC | 50 | Investment holding |

9. 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\$7,285,000 (31.12.2005: HK\$5,598,000) and their aged analysis is as follows:

| | 30.6.2006 HK\$'000 | 31.12.2005 HK\$'000 |
|----------------|-----------------------|------------------------|
| 0 – 90 days | 5,011 | 3,690 |
| 91- 180 days | 1,862 | 821 |
| 181 – 365 days | 412 | 362 |
| Over 1 year | – | 725 |
| | <u>7,285</u> | <u>5,598</u> |

10. AMOUNT DUE FROM A RELATED COMPANY

The related company, 廣州東影影視出品有限公司 (“Tung Ying”) 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.

11. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK\$3,335,000 (31.12.2005: HK\$2,204,000) and their aged analysis is as follows:

| | 30.6.2006 | 31.12.2005 |
|----------------|---------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 90 days | 2,641 | 1,690 |
| 91- 180 days | 466 | 514 |
| 181 – 365 days | 228 | – |
| | <u>3,335</u> | <u>2,204</u> |

12. 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;
- (2) the personal guarantee given by a director of the Company;
- (3) the legal charge over the copyright of one film “Dragon Tiger Gate” with a carrying value of HK\$47,076,000, included in film production in progress, at 30th June, 2006 (31.12.2005: HK\$33,175,000);
- (4) the assignment of income receivables to be derived from the licensing of the film “Dragon Tiger Gate” in all territories throughout the world; and
- (5) certain of the Group’s prepaid lease payments and buildings with a carrying value of HK\$3,644,000 (31.12.2005: HK\$3,730,000) and certain of the Group’s plant, machinery and equipment with a carrying value of HK\$864,000 (31.12.2005: HK\$1,292,000).

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained and renewed bank and other loans amounting to HK\$4,054,000 and repaid bank loans amounting to HK\$6,867,000. The loans bear interest at 1% to 8.5% (31.12.2005: 1% to 8%) per annum and are repayable in one to five years. The proceeds were used for general working capital purposes.

14. CAPITAL COMMITMENT

At 30th June, 2006, the Group had commitments of HK\$20,058,000 (31.12.2005: HK\$20,058,000) which is contracted for the investment in a joint venture in the PRC.

15. CONTINGENT LIABILITIES

In April 2006, 上海華芮文化傳播有限公司 (“Shanghai City Glory”), one of the investors of “Seven Swords”, initiated legal proceedings against Mandarin Films Distribution Co., Ltd. (“Mandarin Films Distribution”), an indirect wholly owned subsidiary of the Company in respect of claim for payment of income amounting to approximately US\$1,020,000 (equivalent to HK\$7,956,000) arising from the filming of “Seven Swords”.

Mandarin Films Distribution has vigorously defended the claims and the proceedings are still ongoing. The Directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group as the profit to be shared by Shanghai City Glory has been properly accounted for in accordance with the cooperation agreement entered on 25th June, 2004 and the supplementary agreement dated 4th March, 2005.

16. RELATED PARTY TRANSACTIONS

During the period ended 30th June, 2006, the Group entered into the following material transactions with related parties:

- (a) Agency fee amounting to HK\$29,000 (six months ended 30th June, 2005: HK\$100,000) was paid to Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.
- (b) Consultancy service fee of HK\$10,000 (six months ended 30th June, 2005: nil) was paid to a brother of Mr. Wong Pak Ming.