MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

The unaudited consolidated turnover and loss after tax of the Group in the first half of year amounted to HK$18.1 million and HK$6.9 million respectively.

The decrease in film distribution and licensing turnover in the first half of the year is the result of, among others, the existence of pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading from the Internet and video disc rental activities, which are continuously the main problems of the film industry. Nonetheless the Group's major production, Seven Swords, was screened in July 2005 as scheduled and the result is encouraging. Another major production is scheduled to start filming in late September this year. In view of this, turnover from film distribution are expected to surge substantially in the second half of the year.

Following the completion of the pre-operation procedures earlier this year, Mandarin Film & Television Post-Production Co., Ltd., the Group's Sino-foreign equity joint venture, with an one-stop operation providing professional and cost-effective film processing services including post production work for films and television series for the PRC and worldwide markets, is now entering the stage of operation planning. The Directors anticipate that this establishment would bring long-term business development for the Group in PRC.

In the first half of the year, profits of HK$254,000 and losses of HK$56,000 were recorded in the Group's processing and advertising business respectively, which remained stable when compared with that of last year and we believe the market condition will improve in the second half of the year.

Liquidity and financial resources

As at 30th June, 2005, the Group retained total cash and bank balances of HK$9.7 million, most of which were in Hong Kong dollars – the exposure of foreign exchange fluctuation has been minimal. Therefore, the use of financial instruments for hedging purpose was not considered necessary. On the same date, the Group had bank borrowings of HK$12.4 million. Part of the loans were secured by leasehold land and buildings, and certain plant, machinery and equipment in Hong Kong held by one of the Group's subsidiary with an aggregate carrying value of HK$4.48 million. Interest rates on these bank borrowings were at prevailing bank lending rates.

As at the financial period ended date, the Group had bank borrowings of HK$10 million which were repayable within one year. On the same date, the current ratio and the gearing ratio of the Group were 1.69 and 32.6 respectively (31st December, 2004: 2.14 and 31.3).

The directors are in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

Given the above, the current information in other management discussion and analysis has not changed materially from those information disclosed in the last published 2004 annual report.

Contingent Liabilities

As at 30th June, 2005, the directors considered that there was no material contingent liabilities for the Group.

Employee and remuneration policies

As at 30th June, 2005, the Group employed 81 staff members, including approximately 54 staff in the processing and development department.

Apart from basic salaries, discretionary bonus and contribution to the mandatory provident fund for staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.

PURCHASE, REDEMPTION AND SALE OF SHARES

During the six months ended 30th June, 2005, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, or sold any of the Company's shares.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2005.