

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

As previously stated in the 2004 Annual Report, the Hong Kong film industry continues to be affected by the existence of, amongst others, pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading and uploading from the Internet and video disc rental in 2005, which caused film productions in Hong Kong to slide to a new low. In 2005, only 55 sets of films were released throughout the year, even fewer than the 64 sets recorded in 2004. Due to the above reasons, the Group's businesses of film distribution and processing as well as advertising and promotional services were all adversely affected. With the implementation of CEPA (Closer Economic Partnership Arrangement) and the rapidly improving and expanding film and television markets in Mainland China, new and potentially lucrative market opportunities have been provided to the Hong Kong film industry. Taking advantage of the opportunities offered by CEPA, the Group co-invested in the joint shooting of *Seven Swords* last year, the results of which was quite well received.

As a further step towards fulfilling the aspirations of the Group and the opportunities offered, the Group established the “東方橫店影視後期製作有限公司” joint-venture with the Hengdian Group of Zhejiang in 2005. All the relevant pre-operation procedures for the joint-venture have been completed, and it has now entered the formal preparation stage of the establishment. The Group believes that, upon the joint-venture becoming operational, the joint-venture will open up new market opportunities and create even more room to develop and contribute to the future growth of the Group's film processing business.

PROSPECTS

As stated above, with the experiences gained from the joint-shooting of *Seven Swords* last year, the Group decided to invest in another major production the *Dragon Tiger Gate* during the latter part of last year. The production of the film had been completed and is scheduled to be released in Hong Kong and Mainland China during the coming summer holiday in 2006. In the meantime, we have been highly encouraged by the positive responses from the foreign film dealers on the film while negotiation with the dealers for selling the licenses are entering an advance stage. On analysis of the current sales of the film, we believe that the contribution to the financial performance of the Group from the *Dragon Tiger Gate* will be better than the *Seven Swords*.

With the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in Mainland China, we believe that the Group would stand to benefit from even more business opportunities in the near future.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2005, the Group employed 80 staff members, including approximately 53 staff in the processing and development department. Apart from basic salaries, discretionary bonus and contributions to the mandatory provident fund for the staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the group. In addition, I would like to thank all our shareholders and investors for their patronage.

Wong Pak Ming

Chairman

Hong Kong, 18th April, 2006