

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

In the year under review, the Group recorded a revenue of HK\$43.3 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 41.9%, 41.2% and 16.9% respectively of the Group's revenue. The decrease in revenue compared with the prior year is mainly due to the general market slump in Hong Kong's film industry.

The Group, reported a loss of HK\$18.6 million compared to a loss of HK\$56.3 million last year. Loss per share is 5.64 HK\$ cents, calculated on the 330,000,000 shares in issue in the 2005 compared with loss of 17.05 HK\$ cents per share of the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2005, the Group gross assets stood at HK\$122.6 million. The net tangible assets of the Group is HK\$52.4 million or 15.87 HK\$ cents per share. The cash and cash equivalent is HK\$10.0 million.

BORROWINGS AND BANKING FACILITIES

As at 31st December, 2005, the Group had outstanding short-term bank borrowings of approximately HK\$10.5 million (represented by current portion of property mortgage loan). The main purpose of the bank loan is to finance the daily operation of the Group.

As at 31st December, 2005, the aggregate banking facilities of the Group was approximately HK\$28.15 million. The utilization rate of banking facilities was about 49.8%. These banking facilities were secured by certain land and buildings of the Group.

The bank borrowings are made in Hong Kong Dollars.

As at 31st December, 2005, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 48.0%.

NET CURRENT ASSETS AND WORKING CAPITAL

As at 31st December, 2005 the Group's total current assets and current liabilities were approximately HK\$87.7 million and HK\$54.9 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities in 2005, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

INVESTMENT

During the year, the Group has held equity investments in HK stock market.

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STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December, 2005 was \$14.9 million representing an increase of 1.8%. The Group had a workforce of about 80 staff at the end 2005. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors of the Company may, at their discretion, invite Executive Directors and full-time employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

FUTURE PLAN

In the coming year the Group will still continue to focus on the business opportunities in the PRC market. Following the establishment of 東方橫店影視後期製作有限公司 last year, which is a sino-foreign joint venture in the PRC, this will create even more room for development for the Group's film processing business in PRC.

In addition, 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, the Group would stand to benefit from even more business opportunities in the near future.