

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospect

The unaudited consolidated turnover and profit attributable to equity holders of the company in the first half of year amounted to HK\$25.4 million and HK\$4.6 million respectively.

For the period under review, the Group recorded an increase in turnover by approximately 40% to approximately HK\$25.4 million. Such increase was mainly attributable to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the CEPA (Closer Economic Partnership Arrangement) model by the Group. The Group believes that, with the new opportunities provided by the implementation of CEPA and the experiences gained from the joint-shooting of films such as 'Seven Swords' and 'Dragon Tiger Gate', the Group will be able to further enhance its ability to produce future internationally recognized films.

During the period, the Group has disposed of 13,296,000 shares in Jade Dynasty Group Limited, whose shares are listed on the Stock Exchange of Hong Kong and were held by the Group as available-for-sale investments as at 31st December, 2005, for an aggregate consideration of approximately HK\$8.8 million resulting in a profit of approximately HK\$4.3 million.

In the first half of the year, losses of HK\$333,000 was recorded in the Group's advertising business, which is comparable with that of last year. As for the Group's film processing business, a profit of HK\$227,000 was recorded, while a loss of HK\$937,000 was recorded in the corresponding period of last year. The vast improvement in the performance of the film processing business is mainly due to better cost control as well as improvement in revenue.

### Liquidity and financial resources

As at 30th June, 2006, the Group retained total cash and bank balances of HK\$19.4 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\$9.9 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\$4.5 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\$8.7 million which were repayable within one year. On the same date, the current ratio and the gearing ratio of the Group were 1.3 times and 39% respectively (31st December, 2005: 1.5 times and 48%).

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

**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.

**Employee and remuneration policies**

As at 30th June, 2006, the Group employed 79 staff members, including approximately 53 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, 2006, 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, 2006.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June, 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Long positions in shares and underlying shares of the Company

Name of Director	Interests in shares			Total interests in shares	Interests in underlying shares subject to share options	Aggregate interests in shares and underlying shares	Approximate percentage of total issued share capital
	Personal	Corporate (Note 1)	Family (Note 2)				
Mr. WONG Pak Ming ("Mr. WONG")	-	152,200,000	114,000	152,314,000	328,000	152,642,000	46.26%
Ms. WONG Kit Fong	3,232,000	-	-	3,232,000	328,000	3,560,000	1.08%
Mr. WAN Ngar Yin, David	2,668,000	-	-	2,668,000	328,000	2,996,000	0.91%
Ms. WONG Yee Kwan, Alvina	2,106,000	-	-	2,106,000	328,000	2,434,000	0.74%
Mr. KO Tin Chow	-	-	-	-	328,000	328,000	0.10%
Mr. TANG Kai Kui, Terence	-	-	-	-	328,000	328,000	0.10%

#### Note:

- These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. WONG.
- These shares are held by Mr. WONG's spouse in which Mr. WONG is also deemed to be interested.

Details of the Directors' interests in underlying shares subject to share options granted by the Company are set out under the heading "Share Options".

Save as disclosed above, as at 30th June, 2006, none of the directors, the chief executive or their associates had any interests or short positions in any shares or underlying shares in, or debentures of, the Company or its associated corporation as defined in SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the period was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SHARE OPTIONS

The Company adopted a share option scheme (the “Scheme”) on 21st August, 2001 (the “Adoption Date”) and pursuant to the shareholders’ resolutions passed on 27th May, 2004, the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries and other eligible persons as defined in the Scheme, to subscribe for shares of the Company, up to a maximum of 33,000,000 shares (subject to renewal with shareholders’ prior approval) at the subscription price which shall not be less than the higher of (i) the closing price of the Company’s shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer, which must be a business day and (ii) the average closing price of the Company’s shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer.

The Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but subject to the early termination of the Scheme.

During the six months ended 30 June 2006, a total of 2,624,000 options have been granted to certain directors and employees of the Group. Details of the outstanding options which have been granted under the Scheme during the period are as follows:

Category and name of participant	Date of grant (Note)	Exercise price per share HK\$	Exercise period	Balance as at 1 January 2006	Granted during the period	Number of options		Lapsed during the period	Balance as at 30 June 2006
						Exercised during the period	Cancelled during the period		
<b>Directors</b>									
Mr. WONG	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Ms. WONG Kit Fong	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Ms. WONG Yee Kwan, Alvina	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Mr. KO Tin Chow	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Mr. WAN Ngar Yin, David	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Mr. TANG Kai Kui, Terence	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Employees of the Group	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	656,000	-	-	-	656,000
				-	2,624,000	-	-	-	2,624,000

### Note:

The closing price of the shares of the Company on 23rd June 2006, immediately before the grant of the above options was HK\$0.93 per share.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30th June, 2006, the register of substantial shareholders maintained by the Company under Section 336 of SFO showed that the following person had interests in 5% or more of the nominal value of the issued ordinary shares of the Company that carry a right to vote in all circumstances at general meetings of the Company:—

Name	Type of interest	Number of shares	Approximate percentage of shareholding of the issued share capital of the Company
Mr. WONG	Corporate ( <i>Note 1 and 3</i> )	152,200,000 (Long position)	46.12%
	Family ( <i>Note 2</i> )	114,000 (Long position)	0.04%
	Other (Share options)	328,000 (Long position)	0.10%
	<b>Total:</b>	<b>152,642,000 (Long position)</b>	<b>46.26%</b>
Mr. ZHANG Xun	Personal	34,936,000 (Long position)	10.6%
Mr. FANG Shu An	Personal	13,000,000 (Long position)	3.94%
	Family ( <i>Note 4</i> )	12,000,000 (Long position)	3.64%
	<b>Total:</b>	<b>25,000,000 (Long position)</b>	<b>7.58%</b>

### Note:

- These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. WONG.
- These shares are held by Mr. WONG's spouse in which Mr. WONG is also deemed to be interested.
- Accordance to SFO, Mr. WONG's spouse is also deemed to be interested in these 152,200,000 shares of the Company.
- These shares are held by Mr. FANG Shu An's spouse in which Mr. FANG Shu An is also deemed to be interested in.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

### CORPORATE GOVERNANCE

During the six months ended 30th June, 2006, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Subsequent to the publication of the Corporate Governance Report in the 2005 annual report of the Company, a new set of bye-laws has been adopted in the annual general meeting of the Company on 26th May, 2006 in order to comply with the Code, especially the director retirement requirements under the Code.

## **FURTHER INFORMATION ABOUT CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Mr. Wong Pak Ming (“Mr. Wong”) is both the chairman and founder of the Company. The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management.

The Board considers that Mr. Wong, being the founder of the Group, possesses in-depth knowledge of the Group and has developed extensive and valuable network in the film production industry and therefore can enable the Group to make and implement decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operation of the Group.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”) OF LISTING RULES**

For the six months period to 30th June, 2006, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30th June 2006, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## **AUDIT COMMITTEE**

The Company has set up an audit committee, comprised of three independent non-executive directors of the Company, namely Mr. TANG Kai Kui, Terence, Mr. LAI Voon Wai and Mr. WAN Ngar Yin, David. The audit committee has reviewed the accounting principles and practices adopted by the Group with management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2006 with the directors.

## **LIST OF DIRECTOR OF THE COMPANY**

As at the date of this report, the four executive directors of the Company are namely, Mr. WONG Pak Ming, Ms. WONG Kit Fong, Ms. WONG Yee Kwan, Alvina and Mr. KO Tin Chow; and three independent non-executive directors, namely, Mr. WAN Ngar Yin, David, Mr. LAI Voon Wai and Mr. TANG Kai Kui, Terence.

## **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 support and our customers for their patronage.

By Order of the Board  
**WONG Pak Ming**  
*Chairman*

Hong Kong, 21st September, 2006