

BUSINESS REVIEW

As previously stated in the 2005 Annual Report, with the implementation of CEPA (Closer Economic Partnership Arrangement), the films jointly produced by Hong Kong and Mainland China have been classified as films locally made in China, and as a result, were permitted to be distributed and released throughout the PRC, thus allowing the Group to reach out to the enormous market with a population of 1.3 billion people. Despite of a number of unfavorable factors, such as pirating, parallel goods, illegal downloading and uploading from the Internet and videodisc rental etc. yet to be resolved, respective authorities in Hong Kong and Mainland China have taken active measures to solve these problems. It is expected that positive effect will materialize in the foreseeable future.

Taking advantage of the opportunities offered by CEPA, the Group co-invested in the joint production of two major movies, namely *Seven Swords* 「七劍」 and *Dragon Tiger Gate* 「龍虎門」 which have both achieved satisfactory results. As such, the Group will continue to explore new development opportunities under CEPA in the coming year.

PROSPECTS

With improved market condition, the Group will produce more films in 2007. The films under production include, among the others, *Flash Point* 「導火綫」 starred by Donnie Yen and Louis Koo and produced by the same team in the production of *Dragon Tiger Gate* 「龍虎門」, a comedy film *Dancing Lion* 「醒獅」 directed and starred by Francis Ng, a female genre film *Wonder Woman* 「女人本色」 directed by Wong Chun Chun and a suspense film *Missing* 「尋人」 directed by Hark Tsui. The films under preparation include, among others, *The Sword Searcher* 「神兵」 which is adapted from Wong Yuk Long's animation, and TV series *The Phantom Lover* 「大劇院」 which is adapted from the film *The Phantom Lover* 「夜半歌聲」.

With the increase in the number of films and TV series produced by the Group, the directors believe that the Group's results should improve in the coming years.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed 76 staff members, including approximately 51 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.

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, 20th April, 2007