

Chairman's Statement



Chairman Lien Jown Jing, Vincent

BUSINESS REVIEW

Overview of Results

For the year ended 31st December, 2002, the Group reported an audited consolidated net loss attributable to shareholders of HK\$68.8 million, which had been significantly reduced from HK\$181.7 million reported for the previous year.

A turnover of HK\$176.3 million and other revenue of HK\$82.8 million, totalling HK\$259.1 million, for the year under review have been recorded. This represents an increase of over 51% over the corresponding total figure for the previous year.

Turnover reported by the advertising agency business fell by around 32% to HK\$54.2 million from HK\$79.4 million for the previous year due to difficult market conditions. This shortfall was compensated for by increases in revenue recorded for entertainment event income, distribution fee income and hotel management fee income. Interest income fell by around 5.1% due to a decrease in bank deposits although interest income on the loan due from Furama Hotel Enterprises Limited for the year, at HK\$75 million, remained steady compared to the previous year.

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BUSINESS REVIEW (continued)

Overview of Results (continued)

Due to increased activities in entertainment event production, marketing expenses showed an increase of HK\$6.8 million (equivalent to about 151%) over the previous year. Through tight cost control, administrative expenses had been cut by around 6.3%. A net other operating gain of HK\$16.9 million had also been reported for the year, which was mainly attributable to a write-back of provisions relating to the hotel operations of the Group. These improvements contributed positively to the consolidated results of the Group. Consequently, the loss from operating activities had been reduced to HK\$27.6 million in the year under review, a significant reduction from the loss of HK\$129.3 million reported for the previous year.

The above improvement has, however, been affected by the share of losses of associates of HK\$31.5 million and impairment loss in amount due from a jointly-controlled entity of HK\$6.5 million.

The Group disposed of its entire interest in HKATV.com Limited in November 2002 to Lai Sun Development Company Limited ("LSD"), the controlling shareholder of the Company, for a cash consideration of HK\$46 million. Completion of the disposal is scheduled for end of April 2003.

Shareholders will note from the report of the auditors their opinion on the recoverability of the debt of approximately HK\$1.5 billion due from Furama Hotel Enterprises Limited to a wholly-owned subsidiary of the Company. The auditors also commented on the competence and objectivity and the adequacy of the scope of the work of the independent third party engaged by the Company to carry out the valuation of the carrying value of the rights, titles and interests to 96 films of the Group.

The aforesaid valuation of the film rights was carried out by an independent third party who has extensive relevant experience in the production, marketing and purchasing of films in Hong Kong.

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BUSINESS REVIEW (continued)

Proposed Privatisation of the Company

On 29th January, 2003, LSD requested the Directors of the Company to put forward a proposal to the shareholders of the Company other than members of the LSD group regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK\$0.28 per share of the Company (the "Proposal"). The Proposal is subject to the approval of the independent shareholders at a meeting convened at the direction of the Supreme Court of Bermuda, and a special general meeting of all shareholders of the Company. Both meetings will be held on 30th April, 2003. The independent financial adviser appointed by the Company to advise the independent board committee has advised the independent board committee to recommend the independent shareholders of the Company to vote against the Proposal at the above meetings.

Satellite Television Operation

An operating loss of HK\$60.7 million had been reported by East Asia satellite television operations ("EAST") for the year under review, compared to the loss of HK\$49.4 million recorded for the 7-month period in the year before. This result was not unexpected as the operation was consolidating its position during this start-up stage. As reported in the interim report for the year, improving the quality and marketability of its programmes has been one of the important targets set by this operation. Stringent cost-benefit control continued to be implemented and this discipline will be maintained in future. Efforts to market programmes produced by EAST at its production centre in Hong Kong to other potential markets in South East Asia, initiated during the second half of the year under review, are continuing.

The EAST Television City in Macau Special Administrative Region is under construction and completion of the project is scheduled for the last quarter of 2004.

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BUSINESS REVIEW (continued)

Film Production and Distribution

The operating results of the Group's 35%-owned associate, Media Asia Holdings Limited ("MAH"), for the year under review had been adversely affected by the noticeable decline in local cinema box-office takings. Despite the difficult market conditions, MAH still succeeded in producing a number of films of respectable standard and quality.

One of the film productions of MAH, "Infernal Affairs", was shown to wide acclaim in early 2003. The film received favourable reviews and achieved record box-office takings of over HK\$50 million in Hong Kong alone.

Entertainment

East Asia Entertainment Limited ("EAE"), a wholly-owned subsidiary of the Company, had produced either individually or by way of joint-ventures a total of 13 pop concerts and entertainment shows during the year under review. A number of events, notably the pop concerts of Miriam Yeung, F4 and Jay Chou, had been well received. With the exception of a few events for which losses were recorded, the operating results for all other concerts or shows were satisfactory.

To expand its source of revenue, EAE had been actively developing the sale of distribution rights for DVD recordings of its entertainment shows. Results achieved so far were on target.

Internet-related Operations

Following an evaluation of the potential for future development of these operations in the light of the strategic direction of the Group, it was decided to further trim down all Internet-related operations during the year. It is anticipated that any additional resources to be allocated to these operations will be insignificant.

PROSPECTS

EAST is awaiting approval for a satellite television downlink licence from the relevant authorities in the Mainland. Meanwhile, this operation will continue to focus on improving the marketability of its television programmes in Greater China and South East Asia. The content of the daily broadcast on the EAST "Life Channel" will also be enhanced to appeal to a wider audience.

Chairman's Statement

PROSPECTS (continued)

The development of the local film industry will inevitably be influenced to a certain degree by the direction of the local economy. It is anticipated that unfavourable market conditions will continue to affect the film industry in the short-term but this should not inhibit investments in projects with good potential. MAH is actively evaluating a number of film projects for production in this financial year. The Group is confident that MAH, with its experience and keen perception of market trends, will be able to pick out other winners like "Infernal Affairs" from potential projects under consideration.

Having established a foothold in the local entertainment industry, EAE will continue to concentrate on the production of pop concerts and entertainment shows. At the same time, the sale of distribution rights for DVD recordings of such events will be further developed to generate additional income. The Group believes the events planned by EAE will provide welcome alternatives to other entertainment events available in Hong Kong to the local populace and overseas visitors alike.

LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS

As at 31st December, 2002, the Group had cash and cash equivalents of HK\$18,726,000, of which over 85% were denominated in Hong Kong dollar currency.

As at 31st December, 2002, the bank borrowings of HK\$25,000,000 due within one year is secured by the Group's land and buildings with an aggregate net book value of HK\$72,097,000 and is interest-bearing at 2% above HIBOR per annum. In addition, the Group has finance lease payables of HK\$31,000 and HK\$77,000 which fall due within one year and for a period of over one year to five years, respectively, as at 31st December, 2002.

The Group's gearing is considered low, as the debt to equity ratio was only 1%, expressed as a percentage of total bank borrowings to total net assets. As at 31st December, 2002, the Group did not have any financial instruments for hedging purpose, or foreign currency net investment hedged by currency borrowings or other hedging instruments.

Chairman's Statement

LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS (continued)

Future capital expenditures will mainly consist of the land and construction cost for the EAST-TV City in COTAI City in Macau. As at 31st December, 2002, the capital commitments contracted for in respect of this project amounted to HK\$42,441,000 (2001: HK\$32,859,000).

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities will be sufficient to fund its capital expenditure and working capital requirements.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 37 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 137 employees as at 31st December, 2002. The total staff costs including net pension contributions for the year was approximately HK\$41,361,000 (excluding directors' remuneration). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 25th November, 1996.

MANAGEMENT AND STAFF

In the year under review, management and staff had tackled continuous challenges under unfavourable market conditions. On behalf of the Board I would like to thank the management and staff for their efforts. I would also like to record the appreciation of the Board of the support rendered by shareholders and business associates during the year.

Lien Jown Jing, Vincent
Chairman

Hong Kong
17th April, 2003