

Chairman's Statement



Chairman Lien Jown Jing, Vincent

BUSINESS REVIEW

Overview of Results

The year under review witnessed a gradual and orderly shift in business direction of the Group. Since the last quarter of the year ended 31st December, 2000, the Group had increased its investment in satellite television operation and film and entertainment production. This transformation is still in progress as at the date of this report but solid foundations have been laid.

During this transitional period, the operating results of the Group had been affected to a certain degree, when contributions from businesses being phased out decreased whilst new businesses being developed had yet to make any significant positive contributions. For the year ended 31st December, 2001, the Group reported a net loss attributable to shareholders of HK\$181,688,000, compared with a restated net loss of HK\$1,128,705,000 for 2000. The figures for the year 2000 had been restated following the adoption of Statement of Standard Accounting Practice ("SSAP") 30 and Interpretation 13 issued by the Hong Kong Society of Accountants. Consequent upon a review and assessment of the fair value of the goodwill previously eliminated against reserves in accordance with the provision of SSAP 31, it was decided by the Board that an impairment of goodwill amounting to approximately HK\$823,055,000 as at 31st December, 2000 should be recognized. This change in accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30.

Chairman's Statement

BUSINESS REVIEW (continued)

Overview of Results (continued)

This prior year adjustment has resulted in amounts of HK\$595,610,000 and HK\$227,445,000, representing impairment of goodwill arising on acquisition of associates and subsidiaries, respectively, being charged to the consolidated profit and loss account for the year ended 31st December, 2000. The recognition of the abovementioned impairment in value of the investments acquired had been made in accordance with the requirement of SSAP 31 and after careful and thorough evaluation of the potential for growth and development of principally the Internet-related assets involved.

The net loss for the year under review was partly attributable to the discontinuation of contributions from the hotel and restaurant operations of the Group, which had been the biggest contributor of turnover and operating profit for the year 2000. Revenue for the year from the Group's advertising agency services, which the Group acquired in July 2000, remained stable when compared with the annualised figure for the 6-month operation in 2000, although the profit margin attained was thin.

Lower interest income also had an unfavourable impact on the results. The bulk of interest income of the Group was derived from the outstanding indebtedness due from Furama Hotel Enterprises Limited. Consequent upon completion of the reorganization agreement entered into with Lai Sun Development Company Limited in July 2000, the amount of this indebtedness had been reduced from HK\$1.9 billion to approximately HK\$1.5 billion, and applicable interest rates had also been revised downwards.

In addition to the above factors, a loss of HK\$65,853,000 on disposal of the Group's holdings in SUNDAY Communications Limited and other short-term investments, and a write-off of goodwill totalling HK\$32,990,000 on the acquisition of two associates and one joint venture during the year under review had been recorded. As the Group no longer holds any significant listed short-term investments, it is expected that losses of similar magnitude will not be recurring in the year ending 31st December, 2002.

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BUSINESS REVIEW (continued)

Satellite Television Operation

As reported in the last interim report of the Company, the television programme production centre of East Asia Satellite Television Limited ("EAST") commenced operation in the second quarter of 2001. Daily broadcast of programmes in Chinese produced by EAST at its Aberdeen, Hong Kong, production centre on the "Life Channel" of EAST commenced in July 2001.

Progress in the construction work of the EAST Television City in COTAI City in Macau Special Administrative Region is slightly behind schedule due to finalisation of detailed design plans.

Films Production and Distribution

During the year under review, the Group increased its equity interest in Media Asia Holdings Ltd. ("MAH") to 35.13%. The core businesses of MAH are the production, provision and distribution of films, television programmes and other media-related consumer products. In view of the recent revival of activities in the Hong Kong movie industry, a number of potential film projects are being evaluated by MAH.

During the year, the Group acquired a 50% interest in The Artiste Campus International Limited, which specialises in the provision of agency services for artistes in the entertainment industry. The Group believes that, through this joint venture, the Group will have greater access to media and entertainment talents, which should complement other film production and entertainment operations of the Group.

Entertainment

East Asia Entertainment Limited, a wholly-owned subsidiary of the Company, had organised and participated in the production of a series of pop concerts and entertainment shows in Hong Kong since the last quarter of the year under review. These projects are complementary to other operations of the Group and will achieve the objective of raising the profile of the East Asia Entertainment group.

Chairman's Statement

BUSINESS REVIEW (continued)

Internet-related Operations

As foreshadowed in the last interim report, the Group had been reviewing the performance of the Internet-related operations closely. A loss for these operations had been reported for the year under review and during 2001, operation of a website of the Group had been discontinued.

PROSPECTS

The Group aims to be a leading Chinese language movie and television programme content provider for distribution through terrestrial, cable TV and satellite channels primarily to viewers in the Greater China region and to Chinese-speaking viewers around the world.

Since the launch of the EAST "Life Channel" in July 2001, continuous improvements had been made to raise the quality of programmes. The programme production capacity of the Group will be substantially boosted when the EAST Television City in Macau Special Administrative Region is completed in the year 2003. It is expected that in addition to potential advertising revenue of the satellite television channel, the sale of television programmes will be another important source of revenue for the EAST operation in the future.

Due to the nature of the movie industry, the Group does not expect that any significant contributions will be derived from the potential film projects currently under consideration by MAH in the financial year ending 31st December, 2002. However, the Group is confident that MAH, with its experience and strengths in the local movie and entertainment industry, will be able to select projects with the best potential.

In contrast to film production, organising pop concerts and entertainment shows will generate revenue in a shorter time span. The Group will be organising a number of concerts by popular and leading singers during the year 2002. As stated above, projects of this nature will complement the other operations of the Group and will help raise the profile of the East Asia Entertainment group.

Chairman's Statement

PROSPECTS (continued)

The Group believes that whilst certain Internet-related projects will complement the satellite television and movie and entertainment businesses of the Group and therefore should be retained, the investment costs of other Internet-related projects should be written down to more realistic levels as a matter of prudence, pending any possible improvement in market conditions and sentiment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2001, the Group had cash and cash equivalents of HK\$53,865,000. The total bank borrowings, due within one year and secured by the Group's land and buildings, was HK\$25,000,000. The Group's gearing was considered low, as the debt to equity ratio was only 1%, expressed as a percentage of total bank borrowings to total net assets.

Future capital expenditures will mainly consist of the land and construction cost for the EAST Television City in COTAI City in Macau.

The Group believes 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 170 employees as at 31st December, 2001. The total staff costs including net pension contributions for the year was approximately HK\$36,000,000. Pay rates for employees are maintained at competitive levels, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programs. The Company adopted a share option scheme for its directors and employees on 25th November, 1996.

Chairman's Statement

On behalf of the Board, I would like to thank the shareholders and business associates of the Company for their support during the year. I would also like to record a vote of thanks to the employees of the Group, my fellow Directors and Mr. Stephen Hung, the former vice-chairman, for their valuable contributions to the development of the Group.

Lien Jown Jing, Vincent

Chairman

Hong Kong

19th April, 2002