

Chairman's Statement

主席報告書

GROUP RESULTS

On behalf of the Board of Directors, I would like to present the Group's results for the year ended 31 December 2001.

The Group realised a total turnover of HK\$28,007,000 for the year, representing a drop of 81% from last year. Loss from operations amounted to HK\$100,541,000 (2000: profit of HK\$30,728,000) and a loss of HK\$98,497,000 attributable to shareholders was recorded (2000: profit of HK\$24,029,000). Because of an assessment of the fair value of the Group's assets, an impairment loss of HK\$81,039,000 has been recognised for 2001 (2000: Nil).

At the Annual General Meeting to be held on 27 May 2002, the directors do not recommend the payment of a final dividend for the year. (2000: Nil)

NEW MANAGEMENT

In 2001, the Group has undergone a series of major transformation which resulted in a fundamental restructuring and refocusing of its business strategy.

In July 2001, China Star Entertainment Limited and its wholly-owned subsidiary, Classical Statue Limited, entered into the Sale and Purchase Agreement with Mr. Hung Leung Tak, Jackson (a former director) for acquisition of the Company's shares and conditional cash offer. Classical Statue Limited now controls approximately 38.64 per cent of the issued share capital of the Company.

集團業績

本人謹此代表董事會提呈截至二零零一年十二月三十一日止年度之業績。

本集團於本年度獲得總營業額28,007,000港元，較去年下降81%。經營虧損為100,541,000港元（二零零零年：溢利30,728,000港元），而股東應佔虧損則為98,497,000港元（二零零零年：24,029,000港元）。評估本集團資產之公平值後，確認二零零一年有減值虧損81,039,000港元（二零零零年：無）。

於二零零二年五月二十七日舉行之股東週年大會上，董事並不建議派發本年度之末期股息（二零零零年：無）。

新管理層

於二零零一年，本集團曾進行一連串重大轉型，結果出現基本重組及重訂業務策略。

於二零零一年七月，中國星集團有限公司及其全資附屬公司Classical Statute Limited與前任董事洪良德先生訂立買賣協議，收購本公司股份及提出有條件現金收購建議。Classical Statute Limited現時控制本公司已發行股本約38.64%。

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NEW MANAGEMENT *(continued)*

As announced by the Company on 2nd August 2001, a new management team was appointed by the Board with effect from that date. The new management team has good connections within the industry and wide experience in film production and distribution. Under the new management, the Group continued its video distribution business and expanded into the distribution of films and video products to the People's Republic of China ("PRC") with a view to improving profitability.

MILESTONE

In 2001, the Group completed its restructuring and was active in reorganizing its businesses and seek opportunities, particularly in the market of the PRC. The most important task for the new management team was to fortify cash flow position of the Group to ensure continual growth and competitiveness. Immense management efforts were thus concentrated on consolidating core businesses and improving liquidity position.

Expanded stock titles in content library

In November 2001, the Group entered into an agreement with China Star Entertainment Limited to grant to the Group the exclusive rights in China which include the theatrical rights, video rights and other medium rights of three movie titles.

新管理層 (續)

按本公司於二零零一年八月二日刊發之公佈所述，新管理層於當日獲董事會正式委任。新管理層於業內之人脈關係廣博，且電影製作及發行經驗豐富。在新管理層領導下，本集團繼續經營影視節目發行業務及將電影與影視節目發行業務擴展至中華人民共和國（「中國」），以提高盈利能力。

新里程

於二零零一年，本集團完成重組，並積極重組業務及發掘商機，尤其專注中國市場。新管理層之首要任務為提高本集團之現金流量，以確保業務持續增長及增強競爭力。因此，管理層將致力鞏固核心業務及改善流動資金。

擴大影片庫存量

於二零零一年十一月，本集團與中國星集團有限公司訂立協議，取得三套電影於中國地區之獨家影院、影視節目及其他媒體之放映權。

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MILESTONE (continued)

Expanded stock titles in content library (continued)

In February 2002, the Group and China Star Entertainment Limited entered into the Licensing Agreement pursuant to which China Star Entertainment Limited agreed to grant to the Group the licensing rights in the PRC territory in respect of 116 Movies for a term of 10 years. It will enhance the Group's existing portfolio of film titles available for distribution in the PRC thereby improving its marketing position to media operators in the Territory, particularly the PRC. The Licensing Agreement will also streamline the geographical focus of China Star and the Group, minimizing their competition in the PRC market.

The Group and China Star Entertainment Limited also entered into the Territory Supply Agreement whereby China Star Entertainment Limited has agreed to grant in favour of the Group a first right of refusal to acquire the PRC territory distribution Rights in respect of the Films. The transactions contemplated in the Territory Supply Agreement will enhance the future development of the Group as it will secure a stable supply of film titles and television drama series for distribution in the potentially huge PRC market.

Explored new revenue resources

In November 2001, the Group has acquired the entire issued share capital of Plexwood Limited. The material asset of Plexwood Limited is the Licence Agreement entered into with the China Distributor. Pursuant to the Licence Agreement, the group has agreed to supply to the China Distributor a minimum of 70 and a maximum of 100 movie titles, television programmes and other video features annually in the PRC with a term of 10 years. It will enable the Group to participate in the potentially vast PRC video market.

新里程 (續)

擴大影片庫存量 (續)

於二零零二年二月，本集團與中國星集團有限公司訂立特許權協議，中國星集團有限公司同意向本集團授出116套電影之中國地區特許權，為期10年。本集團現時可供在國內發行之電影版權將會增加，提升本集團在地區（尤其中國）媒體經營商之市場地位。特許權協議亦整理中國星及本集團之目標市場，避免在中國市場互相競爭。

本集團與中國星集團有限公司亦訂立地區供應協議，中國星集團有限公司同意向本集團授出有關電影中國地區發行權之優先購買權。由於本集團可獲得電影版權及電視連續劇之穩定供應以供在龐大之中國市場發行，故此地區供應協議所涉及之交易將促進本集團日後業務發展。

開拓收入來源

於二零零一年十一月，本集團收購Plexwood Limited全部已發行股本。Plexwood Limited之主要資產為與中國發行商訂立之特許權協議。根據特許權協議，本集團同意在十年內每年在中國向中國供應商供應70至100套電影、電視連續劇及其他影視節目，藉以打入發展潛力龐大之中國影視節目市場。

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MILESTONE *(continued)*

Explored new revenue resources *(continued)*

In December 2001, the Group and China Film Group Corporation entered into a co-operation agreement, pursuant to which the Group is responsible for providing a minimum of 10 35mm movie titles annually to China Film Group Corporation for distribution in the PRC. The co-operation agreement will expand the Group's distribution channels on 35mm movie titles in the PRC.

In February 2002, the Group and Gainful Fortune Limited entered into the Gainful Fortune Supply Agreement pursuant to which the Group has conditionally agreed to grant to Gainful Fortune Limited the Hotel and Intranet Distribution Rights in respect of an aggregate of up to 300 Pictures in the PRC. It allows the Group to gain a good opportunity for future exploitation of the Hotel and Intranet Distribution Rights. We believe that the commercial exploitation of the Hotel and Intranet Distribution Rights by Gainful Fortune in the PRC will enable the Group to participate in the potentially vast PRC video entertainment and/or multi-media market through the implementation of the Gainful Fortune Supply Agreement.

The business was gradually framed and developed in the PRC. Based on our foundation and experience, we will continue to march forward on consolidating our position in the video products and films distribution in the PRC.

新里程 *(續)*

開拓收入來源 *(續)*

於二零零一年十二月，本集團與中國電影集團公司訂立合作協議，本集團須每年向中國電影集團公司提供最少10套35mm電影以供在中國發行。該合作協議將增加本集團35mm電影之中國發行渠道。

於二零零二年二月，本集團與Gainful Fortune Limited訂立Gainful Fortune供應協議，本集團有條件同意向Gainful Fortune Limited授出合共最多300套影片之中國酒店及內聯網發行權。本集團可藉此良機擴大酒店及內聯網發行權。本集團相信Gainful Fortune在中國行使酒店及內聯網發行權，使本集團可透過實行Gainful Fortune供應協議打入發展潛力龐大之中國影視娛樂及／或多媒體市場。

本集團逐步制訂及發展中國業務。憑藉本集團之基礎及經驗，將繼續致力鞏固本集團在中國影視節目及電影發行之市場地位。

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主席報告書

OVERALL REVIEW

The Operating Review

(a) *Operating Results for the Year*

The Group is principally engaged in two core businesses, namely, distribution of video programmes and sub-licensing of video programme rights. They account for 65.94% and 32.50% of the Group's total turnover for the year respectively.

As at 31 December 2001, the Group had over 71 customers, including video rental outlets, video products distributors and operators of television stations, pay TV, cable TV and video on demand in Hong Kong, Macau and North America. Of the various markets, Hong Kong and Macau remained the largest to the Group for the year, accounting for 68.12% of its total turnover.

Distribution of Video Programmes

Turnover from distribution of video programmes amounted to HK\$18,469,000 for the year, representing a decrease of 81.18% from the previous year. The decline is attributable to a fall in sales volume of VCDs which results is derived from the decline in releasing the video programmes from 101 to 8 titles and in acquiring the distribution rights to video programmes from 100 to 21 titles. Fierce price wars cut down both the sales and profit margin of video programme distribution.

整體回顧

業務回顧

(a) 本年度經營業績

本集團主要從事兩項核心業務，包括發行影視節目及轉授影視節目發行權，分別佔本集團本年度之總營業額65.94%及32.50%。

二零零一年十二月三十一日，本集團有71名客戶，包括影視節目租賃店、影視產品發行商，以及電視台、收費電視台、有線電視台及自選影院等經營商，而該等客戶之業務遍及香港、澳門及北美等地。在各市場中，香港及澳門仍為本集團本年度之最大市場，佔總營業額68.12%。

發行影視節目

本年度發行影視節目之營業額達18,469,000港元，較去年減少81.18%。此乃由於影視節目發行數目由101套減至8套及所收購之影視節目發行權由100套減至21套而使VCD的整體銷售額下跌所致。激烈割價戰使發行影視節目之銷售額及邊際毛利減少。

Chairman's Statement

主席報告書

OVERALL REVIEW (continued)

The Operating Review (continued)

Sub-licensing of Video Programme Rights

The turnover from sub-licensing of video programme rights also decreased by 79.99% to HK\$9,104,000 in 2001. The decrease is attributable to the drop in demand for TV and video programmes due to the downturn of economy in North America and Australia.

(b) *Employees*

As at 31 December 2001, the Group employed 31 full time marketing, management, administrative and production staff. The Group remunerates its employees based on their performance, experience and the general market situation in the respective region and businesses in which the Group operates. The remuneration policies of the Group are reviewed on an annual basis and the remuneration package includes the pension funds, bonuses and share options. Staff costs were HK\$13,030,000 in 2001 (2000: HK\$7,253,000).

The Financial Review

(a) *Capital Structure and Treasury Policy*

The Group maintains a strong and stable financial position. As at 31 December 2001, the Group had total assets of approximately HK\$272,852,000, comprising non-current assets of approximately HK\$199,513,000 and current assets of approximately HK\$73,339,000, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK\$23,861,000, HK\$2,728,000 and HK\$246,263,000 respectively.

整體回顧 (續)

業務回顧 (續)

轉授影視節目發行權

轉授影視節目發行權於二零零一年之營業額減少79.99%至9,104,000港元。營業額減少主要是由於北美、澳洲經濟衰退使電視及影視節目需求下降所致。

(b) *僱員*

二零零一年十二月三十一日，本集團僱用全職員工約31名，負責市場推廣、管理、行政及生產工作。本集團員工之酬金乃按表現、經驗及本集團經營地區及業務之一般市場狀況釐定，而本集團之有關政策乃每年度檢討，而酬金包括公積金、花紅及認股權。員工成本在二零零一年為13,030,000港元（二零零零年：7,253,000港元）。

財務回顧

(a) *資本結構及財政政策*

本集團維持強健及穩定之財政狀況。於二零零一年十二月三十一日，本集團資產總值約為272,852,000港元，包括非流動資產約199,513,000港元及流動資產約73,339,000港元，而資金來源包括流動負債、非流動負債及股東資金，分別約為23,861,000港元、2,728,000港元及246,263,000港元。

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OVERALL REVIEW *(continued)*

The Financial Review *(continued)*

(b) *Borrowings and Banking facilities*

The Group generally finances its operations with internally generated resources. As at 31 December 2001 the Group has no any banking facilities.

At 31 December 2000, the Group's banking facilities utilised of approximately HK\$2,402,000 were secured by certain of the Group's leasehold land and buildings located in Hong Kong with a total net book value of HK\$7,580,000. During the year ended 31 December 2001, the banking facilities were expired and the pledge was released.

The Group's consolidated net cash as at 31 December 2001, being cash and bank deposits less bank borrowings, amounted to HK\$27,770,000 compared to consolidated net cash of HK\$10,580,000 as at the last corresponding period end.

The Group services its debts primarily through cash generated by operations. As at 31 December 2001, the Group had bank balances and cash of approximately HK\$27,770,000 and taking into consideration the Group's internally generated funds, the directors have ascertained that the Group has adequate financial resources to sustain its working capital requirement and future expansion.

整體回顧 (續)

財務回顧 (續)

(b) 借款及銀行信貸

本集團一般以內部資金應付業務所需。於二零零一年十二月三十一日，本集團並無任何銀行信貸。

二零零零年十二月三十一日，本集團已動用之銀行信貸約2,402,000港元以本集團若干賬面淨值合共7,580,000港元之香港租賃土地及樓宇作為抵押。截至二零零一年十二月三十一日止年度，該等銀行信貸均已屆滿，而有關抵押亦已解除。

本集團於二零零一年十二月三十一日之綜合現金淨額（即現金及銀行結餘減銀行借貸）為27,770,000港元，而去年同期之綜合現金淨額則為10,580,000港元。

本集團主要以業務所得資金償還債項。二零零一年十二月三十一日，本集團銀行結存及現金約為27,770,000港元。經考慮本集團之內部資金，董事認為本集團具備充裕資金以應付營運資金及未來擴充所需。

Chairman's Statement

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OVERALL REVIEW (continued)

The Financial Review (continued)

(c) *Use of Net Proceeds of the New Issue*

The net proceeds we received from the new issue amounted to approximately HK\$33,000,000 of which approximately HK\$2,730,000 has been used for deposit paid in acquisition of additional distribution rights to video programmes and the remaining amount has been applied for general working capital of the Group as at 31 December 2001.

(d) *Contingent Liabilities*

There was no material contingent liability as at 31 December 2001.

(e) *Foreign Exchange Exposure*

Substantially all the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong or US dollars. Foreign exchange exposure of the Group is minimal as long as the Hong Kong government's policy to link the Hong Kong dollar to the US dollar remains in effect.

The Group will continue to adopt its conservative and prudent policy in financial and treasury management.

整體回顧 (續)

財務回顧 (續)

(c) 發行新股所得款項淨額之用途

發行新股所得款項淨額約為33,000,000港元，於二零零一年十二月三十一日約2,730,000港元已用作增購影視節目發行權，而餘額則作為本集團之一般營運資金。

(d) 或然負債

於二零零一年十二月三十一日並無重大或然負債。

(e) 外匯風險

本集團大部份收入、開支、資產及負債之幣值均為港元或美元。在香港政府之聯繫匯率政策仍然生效之下，本集團之外匯風險很低。

本集團在財務及財政管理方面將繼續採取小心審慎之政策。

Chairman's Statement

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PROSPECTS

Mission

China is now the bigger economy in the world. People is enjoying an improvement in living standard and as a result, paying more attention to their physical condition. There is a growing demand for high quality entertainment products in the PRC. "To introduce the sound quality films to Chinese audiences" has always been the mission of the Group. Do the best we can. The Group will expand its video and film distribution businesses in the PRC.

The Group, supported by its resources in the PRC and its position in the international capital market, will establish various strategic partnership to identify business opportunities that are in line with the future development strategy of the Group.

We do believe that this strategic market penetration model is the most efficiency way to explore the PRC retail market and new revenue resources.

Future Return

The philosophy of the Group continues to be maximizing return to our shareholders. Through this year's contribution, the Group has built with good relationship with China partners.

In 2001, we were success to exploit revenue resources in 35mm film and video products distribution channel in PRC. Apart from the above, we have planned to explore other new resources.

The value of the content owned by the Group has to be realized. Apart from distributing video products, we will start to distribute our content through other media channels such as Cable channels in PRC in future.

前景

業務宗旨

中國目前為全球最大經濟體系之一。隨著生活水平逐步上升，人民日漸著重生活條件，使中國優質娛樂產品之需求不斷增加。海岸之業務宗旨為「向中國觀眾提供優質電影」。為精益求精，本集團將擴展中國影視節目及電影發行業務。

本集團將利用特別經濟區政策及地利優勢，與中國業務夥伴合作，爭取業務擴展機會，鞏固及擴大中國市場佔有率。

本集團深信上述策略市場滲透模式為開拓中國零售市場及新收入來源之最有效方法。

未來回報

本集團將繼續致力提高股東之回報。經過今年之努力，本集團與中國業務夥伴保持良好業務關係。

於二零零一年，本集團成功拓展35mm電影及影視產品於中國地區之發行渠道。除上述外，本集團亦計劃發掘更多新收入來源。

本集團所擁有之資訊內容價值必須變現。除發行影視產品外，本集團將開始透過中國有線電視頻道等其他媒體發行資訊內容。



Chairman's Statement

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PROSPECTS *(continued)*

Future Return *(continued)*

Looking ahead, we will strengthen our position as a content provider of programmes and to explore new revenue resources across a wide spectrum of media. As difficult as it sounds but the first step we are setting foot in.

Appreciation

On behalf of the Directors, I would like to express my appreciation to all our shareholders, investors and business partners for their continued support and confidence in the Group. I would also like to thank our management team and staff for their efforts and significant contributions in the past and in the years to come.

By order of the Board

Heung Wah Keung

Chairman

Hong Kong, 26 April 2002

前景 (續)

未來回報 (續)

展望未來，本集團將致力鞏固在影視節目供應商之地位，並開拓跨媒體之收入來源。雖然面對種種挑戰，惟本集團均會勇於面對。

致謝

本人謹代表董事會表示深切謝意，感謝各位股東、投資者及業務夥伴對本集團一直以來之支持與信任，並感謝各位員工一直鞠躬盡瘁、忠誠盡責為本集團作出重大貢獻。

承董事會命

主席

向華強

香港，二零零二年四月二十六日