
CHAIRMAN'S STATEMENT

BUSINESS REVIEW

2002 was the worst year of Hong Kong's film industry in the last two decades. Only some 60 films were produced for the whole of last year, a drop by half as compared with some 120 films in 2001. The overseas market suffered a serious blow, which was an aftermath of the terrorist attack in the US on 11th September 2001. This adverse environment has affected the Group's business. With a production of six films last year, we recorded a loss for this business due to the contraction of local and overseas markets. For the film processing business, we processed 47 films, which represented a drop of 40 from last year's 87. Due to the market slump, our advertising business could only manage to make a marginal profit (before offset of intra company accounts within the Group). Since the local territory is currently suffering from the outbreak of atypical pneumonia, the Group has thus made appropriate impairment adjustments.

FUTURE PROSPECT

With the outbreak of atypical pneumonia, the prospect of local film business looks grim this year. However, from our active development of the Mainland market last year, we found that the film business in China is heading an upward trend. Since last June, China has introduced a series of measures in a bid to open up film distribution. To overcome the monopoly situation in the past and create a positive competition, it is stipulated that each province must have at least two cinema networks. Also, cinemas joining a distribution network must provide the service of computer booking. The industry is further boosted by the additional effort of the Cultural Bureau to combat the piracy problem.

The Group will participate in joint production of several films this year, which are aimed at showing in mainland cinemas. To generate more revenue, we will also produce drama series for television broadcasting in China.

For our advertising business, we are finalizing our plan in setting up a joint venture in China this year to develop the mainland market.

For our film processing business, the Group is prudently seeking a business partner in China who has well-established experience in this field to jointly develop the mainland market.

Last year, the Group established a joint venture company in Beijing, which is named 北京東方新青年文化發展有限公司. We signed an agreement with the National Association of Youth and Children's Palace in April to develop a drama-training program named "Be a Good Actor". This program will be offered to over 1,500 Youth and Children's Palaces in China.

The Group also plans to develop film distribution business and set up cinemas in China this year. After the official accession of the WTO, China continues to open up its market. Its economy grows steadily and local people are more willing to spend. All these positive factors yield a good prospect for our business development in China.

CHAIRMAN'S STATEMENT

(Continued)

Locally, we will cooperate with the Education Services Division of Caritas to launch the drama-training program of "Be a Good Actor".

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2002, the Group employed 76 staff members, including approximately 57 staff in the film 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.

APPRECIATION

I hereby express grateful appreciation to board members and all staff for their devoted efforts in the past challenging year. I would also like to thank our share investors for their support to and confidence in the Group. In the coming year, the Group will strive for more satisfactory results.

Wong Pak Ming
Chairman

11th April, 2003