

## BUSINESS REVIEW

In 2004, the existence of pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading from the Internet and video disc rental, among others, which are all factors damaging the box office and the retail market, drove the number of productions in the film industry to a new trough last year. Only 64 films were screened in the whole year, even fewer than the 73 in 2003 with SARS. Because of this, the Group's businesses of film distribution and processing as well as advertising and promotional services were all severely affected. The Group screened the film *Life Express* (生死速遞) in the last year, but due to piracy in the Mainland, its global distribution and box office results were both affected. The Group had already initiated various measures of remedy, but the Group still incurred substantial loss.

The Group formed a joint venture in Beijing in 2002 named “北京東方新青年文化發展有限公司” and signed an agreement with the China National Youth Palace Association to develop a drama training programme. It was suspended by the outbreak of SARS in 2003, but the training was re-launched last year. Because it was re-launched, the response was relatively slow. Being prudent, the Group made appropriate provisions for the investment in the training programme.

## PROSPECTS

The Group invested in a major production, *Seven Swords* (七劍), last year, and the filming was completed early this year. It is now in the stage of post production, and is preliminarily scheduled to be screened this summer. Another film, whose scale is to be more substantial, is preliminarily scheduled to start filming in the middle of this year. Also planned to be produced this year are two major television drama serials each with 30 episodes, totalling 60 episodes. The Government is attaching more and more importance to the matter of intellectual property, thus stricter measures to combat piracy are expected from the Government. In view of this, turnover and profit from distribution are expected to surge substantially this year.

The Group prepared the establishment of “東方橫店影視後期製作有限公司” with the Hengdian Group of Zhejiang last year. All the relevant pre-operation procedures have been completed, and the relevant approval was issued early this year. This is the first licence granted to a foreign enterprise to form a film processing joint venture in the Mainland. According to statistics, the number of film productions in the Mainland jumped from 100 in the year 2003 to over 200 in the year 2004, which is a 100% increase. This creates even more room for development for the Group's film processing business as well as an optimistic future.

## EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed 77 staff members, including approximately 55 staff in the 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.

# CHAIRMAN'S STATEMENT

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## **ACKNOWLEDGEMENT**

On behalf of the Board, I would like to express my sincere gratitude to all 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*

19th April 2005