

# Chairman's Statement



Chairman LIEN Jown Jing, Vincent

## BUSINESS REVIEW

### Overview of Results

Turnover for the year increased by 56% to HK\$152.78 million from HK\$97.80 million in 2003. This increase is attributable mainly to the increase in revenue from entertainment event production and sale of cosmetic products, but partially offset by a decrease in advertising income. Increases in other revenue and other operating gains and savings in administrative expenses, offset by increases in marketing expenses and loss on deemed disposal of interest in an associate were recorded to arrive at the cumulative loss on operating activities of HK\$57.33 million, which was a slight improvement compared with the loss of HK\$67.52 million in the previous year.

The loss from operating activities had been compensated for by the premium on settlement of a debt recognised as income arising on acquisition of a 40.8% interest in Lai Sun Development Company Limited ("LSD") of HK\$95.99 million and the share of profits and losses of associates, namely LSD and Media Asia Entertainment Group Limited, of HK\$30.64 million. The Group recorded an audited consolidated net profit attributable to shareholders of HK\$52.37 million, which was a noticeable improvement on the net loss of HK\$92.71 million reported for the previous year.

# Chairman's Statement

## **BUSINESS REVIEW (continued)**

### **Overview of Results (continued)**

Shareholders of the Company approved the Settlement Agreement entered into between the Group and the LSD group at a special general meeting of the Company held on 13th October, 2004. Completion of settlement of the debt due from Furama Hotel Enterprises Limited ("FHEL"), a wholly-owned subsidiary of LSD, to Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of the Company, took place on 7th December, 2004 and, as part of the settlement, a total of 5,200 million new ordinary shares of LSD were allotted and issued to the Group at the par value of HK\$0.50 per share, credited as fully paid. The aforesaid LSD shares represent approximately 40.8% of the total issued ordinary share capital of LSD. In addition, GPEL received a cash repayment of HK\$20 million, and it also extended an interest-bearing 5-year loan of HK\$225 million to FHEL, secured on the basis of the Ritz Carlton Security which GPEL will share with the bondholders of LSD on a pari passu basis.

### **East Asia Satellite Television Operations ("EAST")**

The operations reported a loss of HK\$31.30 million for the year under review, which was a significant improvement on the loss of HK\$67.07 million in the previous year, as it had been adversely affected by a provision for impairment of fixed assets amounting to HK\$21.01 million in the 2003. Tight cost control and decrease in depreciation further contributed to the improvement in operating results.

EAST will continue to implement its operating and business development plans whilst it awaits approval for a satellite television downlink licence from the relevant Mainland authorities. Programmes produced by EAST continued to be offered to subscribers of NOW Broadband TV of PCCW Limited in Hong Kong. Income generated from this source was on target.

Reclamation work at the site of the EAST Television City in Macau Special Administrative Region ("Macau") had been completed in the last quarter of 2004. Construction work at the site was slightly behind schedule as a number of alternative development plans have been evaluated by the Group in order to maximize the economic benefit of this project to the Group.

# Chairman's Statement

## **BUSINESS REVIEW (continued)**

### **East Asia Satellite Television Operations ("EAST") (continued)**

On 15th November, 2004, the Group entered into a binding memorandum of cooperation with Lai Fung Holdings Limited ("LFH") in which the Group granted to LFH in principle a right to participate in the development and profit distribution of a residential property project in a section covering approximately 20,000 square metres of the EAST Television City site (the "Section"). Earnest money totalling HK\$46 million had been paid by LFH. Based on a valuation of the Section made by an independent valuer, the estimated market value of the Section in its vacant state as at November 2004 was approximately HK\$115 million.

Under the terms of the memorandum of cooperation, the Group is obliged to obtain from the Macau government the relevant licence or approval for the design of works of the project no later than June 2005 or such other date as LFH may agree. LFH shall have the right during the period from 1st to 31st July, 2005 to withdraw from the project and the Group shall repay the earnest money to LFH. Assuming LFH does not elect to withdraw from the project, both parties will enter into a formal cooperation agreement no later than July 2005.

The Group has been exploring the feasibility of a number of potential development plans for the remainder of the aforesaid site. One of the proposals may possibly involve the construction of two hotels and the Television City, subject to obtaining the requisite approval from the Macau government and on the assumption that projected plot ratios in the range of 2.5 to 3 would be applicable for the proposal.

### **Film Production and Distribution**

Media Asia Entertainment Group Limited ("MAEG"), which became the holding company of Media Asia Holdings Limited following a restructuring prior to the listing of MAEG, successfully obtained a listing on Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System ("SGX-SESDAQ") and trading in the shares of MAEG commenced on 3rd November, 2004. The Group currently holds a 37.33% interest in MAEG.

## Chairman's Statement

### **BUSINESS REVIEW (continued)**

#### **Film Production and Distribution (continued)**

For the financial year ended 31st December, 2004, MAEG reported a net profit attributable to shareholders of HK\$40.02 million. Total revenue dropped by 21.1% in the year to HK\$242.5 million as, unlike in 2003, there was no disposal of film products and film rights. MAEG's film production and distribution operation achieved an increase in revenue to HK\$198.0 million from HK\$129.2 million in the previous year, which was attributable to the release of 8 new films during the year compared with 6 new films in the previous year.

#### **Entertainment**

During the year under review, East Asia Entertainment Limited ("EAE") recorded a significant increase in turnover to HK\$67.24 million from HK\$4.74 million in the previous year from entertainment event production. EAE produced 8 events and participated in 7 other events in joint-ventures with other parties.

Total revenue of the Group's media and entertainment segment for the year increased by 289% over the previous year. This increase was attributable to entertainment event production, as distribution income on pop concerts DVD/VCD products and licence fee income from films in the library of the Group had dropped by approximately 18% compared with the previous year.

To further expand the scope of the Group's entertainment business, the Group set up a subsidiary and a 50/50 joint-venture for music production and distribution business during the year. The Group produced four albums for Leon Lai and Denise Ho, two of the popular Canto-pop artistes in Hong Kong, with satisfactory results.

In all, the media and entertainment segment of the Group recorded a loss of HK\$10.08 million for the year.

### **PROSPECTS**

#### *EAST*

EAST will continue in its efforts to procure approval for a satellite television downlink licence from the authorities in the Mainland.

## Chairman's Statement

### **PROSPECTS (continued)**

#### *EAST (continued)*

The expected growth in the economy of Macau in the short- to medium-term should continue to support current market sentiment for high-end residential property. The residential property development project of EAST in cooperation with Lai Fung Holdings Limited, if it proceeds, would therefore benefit the Group.

As disclosed above, one of the potential development plans for the remainder of the EAST Television City site may involve the construction of two hotels and the Television City. If this proposal is adopted and approved by the Macau government, it is anticipated the component and weighting of investments of EAST will undergo significant changes.

#### *MAEG*

According to figures released by the China Film Bureau, the three top-grossing films in the Mainland in 2004 with over HK\$100 million in cinema ticket sales were high-budget Chinese language films produced in the Mainland, including MAEG's co-production "A World Without Thieves" starring Andy Lau from Hong Kong and Ge You from the Mainland.

MAEG intends to capitalise on the anticipated popularity of high-budget, quality productions featuring a combination of popular Hong Kong and Mainland talents through its present production and distribution activities, and in joint ventures with partners in the Mainland.

MAEG also anticipates an increase in newly constructed or refurbished multi-screen cinema complexes in major cities in the Mainland. It has expanded its business scope in the Mainland to include the provision of consultancy services for various film exhibition and related projects in the Mainland. It has also monitored closely a number of investment and consultancy opportunities in the businesses of film exhibition and cinema operation in the Mainland.

## Chairman's Statement

### **PROSPECTS (continued)**

#### *EAE*

The year 2004 witnessed a revival in the level of activity in local pop concerts. EAE expects this momentum to continue in the year 2005 as forecasts of growth of the local economy remain optimistic. Its operating plans for 2005 include the production of two concerts and participation in eleven other productions, which will involve over 100 shows in total.

#### *LSD*

The successful completion of the debt settlement plan of LSD in December 2004 has enabled it to re-establish a firm financial footing. There remains an obligation for LSD to repay HK\$266 million secured by the series A bonds issued by the LSD group before 31st December, 2005 through the disposal of LSD group's interests in two hotels in Vietnam and a residential property in Hong Kong. LSD has made a voluntary repayment equivalent to 10% of the total amount in early 2005, and is confident that the outstanding balance will be repaid on time.

LSD has benefited from price appreciation in the local property market over the past two years, as evidenced by strong rental reversions of its investment property portfolio and satisfactory contributions from sale of new property development projects during the year. It will remain prudent in formulating its property development strategy. Given the revival in global travel, it will continue to pursue hotel management opportunities in Hong Kong and the rest of Asia through Furama Hotels and Resorts International Ltd., which has maintained a fine track record in the management of three-to-four star hotels.

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

As at 31st December, 2004, the Group had cash and cash equivalents of HK\$18,472,000, of which over 80% were denominated in Hong Kong dollar currency.

## Chairman's Statement

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

As at 31st December, 2004, the bank borrowings of HK\$21,000,000 and HK\$4,000,000 which fall due within one year and the second year, respectively, are secured by fixed charges over the Group's land and buildings with an aggregate net book value of HK\$68,227,000 and are interest-bearing at 2.25% above HIBOR per annum. The Group has secured other borrowings of HK\$1,450,000 which fall due within one year and are secured by the Group's properties held for sale with an aggregate net book value of HK\$2,700,000 and are interest-bearing at 1% per month. The Group has unsecured other borrowings of HK\$21,200,000 and HK\$15,000,000 which fall due within one year and the second year, respectively, and bear interest at 1% per month. The Group also has unsecured other borrowings from an ex-director and ex-shareholder of the Company of HK\$127,321,000 with no fixed terms of repayment, bears interest at the HSBC prime rate per annum except for an amount of HK\$6,383,000 which is interest-free. The loan from a related company of HK\$13,339,000 is unsecured, bears interest at HSBC prime rate per annum and is not repayable prior to 31st December, 2006 except for an amount of HK\$839,000 which is interest-free. The loan from a director of HK\$9,659,000 is unsecured, interest-free and has no fixed terms of repayment. In addition, the Group has finance lease payables of HK\$40,000 and HK\$2,000 which fall due within one year and the second year, respectively, as at 31st December, 2004.

The Group's gearing is considered low, as the debt to equity ratio was only 12%, expressed as a percentage of total borrowings to total net assets. As at 31st December, 2004, the Group did not have any financial instruments for hedging purpose, or foreign currency net investment hedged by currency borrowings or other hedging instruments.

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, 2004, the capital commitments contracted for in respect of this project amounted to HK\$36,633,000 (2003: HK\$21,979,000).

## Chairman's Statement

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

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities and other borrowings 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 36 to the financial statements.

### **EMPLOYEES AND REMUNERATION POLICIES**

The Group employed a total of approximately 180 employees as at 31st December, 2004. The total staff costs including pension contributions for the year ended 31st December, 2004 were approximately HK\$45,180,000 (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**

On behalf of the Board, I would like to thank the management and staff for their hard work and dedication during the year. I would also like to thank our shareholders, business partners and associates for their invaluable support.

**Lien Jown Jing, Vincent**  
*Chairman*

Hong Kong  
15th April, 2005