

Financial Review

The Group recorded a turnover of HK\$58,382,000 for the year ended 31st December 2004, a 72% decrease from HK\$206,996,000 for the previous year. The decrease was mainly attributed to a decrease in the number of films distributed and sub-licensed, and a decrease in average income per new film. Of the total turnover amount, HK\$27,285,000 or 47% was generated from distribution of films, HK\$16,319,000 or 28% was generated from sub-licensing of film rights and HK\$14,778,000 or 25% was generated from investment in securities. The loss from operations before depreciation, amortization of other asset and goodwill, impairment losses in respect of film rights, other asset and goodwill, and allowance for advances to an associate was HK\$26,569,000. The net loss attributable to shareholders for the year ended 31st December 2004 was HK\$268,390,000.

The Group's cost of sales for the year ended 31st December 2004 amounted to HK\$48,674,000, out of which HK\$16,238,000 was related to the investment in securities business. Cost of sales for film distribution and sub-licensing of film rights businesses decreased from HK\$61,180,000 in the year ended 31st December 2003 to HK\$32,436,000 in the year ended 31st December 2004. The decrease was mainly attributed to a decrease in amortization of film rights, which was the result of distributing and sub-licensing a less number of films in 2004.

The Group's gross profit margin for film distribution and sub-licensing of film rights businesses dropped from 70% in the year ended 31st December 2003 to 26% in the year ended 31st December 2004. This was attributed to the decrease in average income per new film resulted from the rampant piracy, the decline in popularity of Hong Kong films and the better margins the Group obtained from the distribution business through the sale of 320 old film rights in the year ended 31st December 2003, the cost of which had almost been fully amortized.

At the end of the financial year, the Group reviewed the carrying value of film rights and, in light of the decline in popularity of Hong Kong films, an impairment loss of HK\$16,213,000 was recognized in the year ended 31st December 2004. The Group also reviewed the carrying value of other asset and, in light of the difficult operating environment in the PRC, an impairment loss of HK\$46,512,000 was recognized in the year ended 31st December 2004.

財務回顧

截至二零零四年十二月三十一日止年度，本集團錄得營業額58,382,000港元，較去年之206,996,000港元減少72%。營業額減少主要與發行電影及轉授電影發行權之數目減少以及每部新片之平均收入減少有關。營業總額中，27,285,000港元或47%來自發行電影，16,319,000港元或28%來自轉授電影發行權，及14,778,000港元或25%來自證券投資。未計折舊、其他資產及商譽之攤銷、有關電影發行權、其他資產及商譽之減值虧損以及墊付聯營公司款項撥備之經營虧損為26,569,000港元。截至二零零四年十二月三十一日止年度之股東應佔虧損淨額為268,390,000港元。

本集團截至二零零四年十二月三十一日止年度之銷售成本為48,674,000港元，其中16,238,000港元與證券投資業務有關。發行電影及轉授電影發行權之業務產生之銷售成本由截至二零零三年十二月三十一日止年度之61,180,000港元減少至截至二零零四年十二月三十一日止年度之32,436,000港元。銷售成本減少主要與二零零四年發行及轉授發行權之電影數目減少，以致電影發行權之攤銷減少有關。

本集團發行電影及轉授電影發行權業務之毛利率由截至二零零三年十二月三十一日止年度之70%減少至截至二零零四年十二月三十一日止年度之26%，主要與盜版活動猖獗及港產片受歡迎程度下降以致每部新片之平均收入減少，及本集團於截至二零零三年十二月三十一日止年度出售320部成本已幾乎全數攤銷之舊電影之發行權從發行業務取得較佳毛利有關。

於財政年度結束時，本集團檢討電影發行權之賬面值，鑑於港產片的受歡迎程度下跌，於截至二零零四年十二月三十一日止年度已確認減值虧損16,213,000港元。本集團亦檢討其他資產之賬面值，鑑於中國經營環境困難，於截至二零零四年十二月三十一日止年度確認減值虧損46,512,000港元。

In response to the growing popularity of “Bit Torrent” and the widespread availability of pirated video products, the Group decided to cease to sell its video products through the 27 stores operated by Carrefour in the PRC as it was anticipated that the networks would not be able to generate positive cash flow to the Group in the foreseeable future. As a result, an impairment loss in respect of the goodwill arising from the acquisition of Legend Rich Limited of HK\$20,000,000 was recognized in the year ended 31st December 2004.

Due to the difficult operating environment of film exhibition business in the PRC, the Group also recognized an impairment loss in respect of the goodwill arising from the acquisition of World East Investments Limited of HK\$8,072,000 in the year ended 31st December 2004.

At 31st December 2004, an allowance for bad and doubtful debts of HK\$1,648,000 was made for long outstanding trade receivables. The directors were uncertain whether the amount would ultimately be collected and considered that it was prudent to make such an allowance.

In 2002, Gainful Fortune Limited (“Gainful”), an associate of the Group, issued the convertible notes in an aggregate amount of HK\$160,000,000 to the Group for the purchase of the hotel and intranet distribution rights in the PRC in respect of an aggregate of up to 300 films and the entire issued share capital of Ocean Shores Licensing Limited (“OSLL”). Gainful faced the illegal broadcasting of the Group’s films by hotel operators in the PRC and its business did not progress as planned. For prudence, an allowance for advances to an associate of HK\$138,531,000 was made against the convertible notes and advances made to Gainful at 31st December 2004. In April 2005, the Group exercised its right to convert the outstanding principal amount of the convertible notes into shares of Gainful. Accordingly, Gainful and OSLL become subsidiaries of the Company and the Group repossesses the 300 films previously sold.

For the year ended 31st December 2004, the Group’s investment in securities business recorded a loss of HK\$1,460,000. The market value of the Group’s listed securities amounted to HK\$41,732,000 at 31st December 2004. The Group will manage its investments in listed securities in a prudent manner in 2005.

由於以「Bit Torrent」下載電影日趨流行及盜版影視產品泛濫，本集團決定停止透過家樂福於中國經營之27間商店銷售其影視產品，理由是預期該網絡在可見將來將無法為本集團帶來正數現金流量。因此，與收購Legend Rich Limited產生之商譽有關之減值虧損20,000,000港元已於截至二零零四年十二月三十一日止年度確認。

基於中國電影放映業務經營困難，本集團亦於截至二零零四年十二月三十一日止年度確認與收購World East Investments Limited產生之商譽有關之減值虧損8,072,000港元。

於二零零四年十二月三十一日，已就長期未償還貿易應收賬項作出呆壞賬撥備1,648,000港元。董事不肯定最終能否收回有關款項，並認為就此作出撥備較為審慎。

於二零零二年，本集團之聯營公司Gainful Fortune Limited（「Gainful」）向本集團發行合共160,000,000港元之可換股票據，以收購合共最多達300部電影在中國之酒店及內聯網之發行權及Ocean Shores Licensing Limited（「OSLL」）全部已發行股本。面對中國之酒店經營者非法播放本集團之電影，Gainful之業務未能如計劃般發展。為審慎起見，於二零零四年十二月三十一日已就可換股票據及墊付Gainful之款項作出墊付聯營公司款項之撥備138,531,000港元。於二零零五年四月，本集團行使其權利將可換股票據之未償還本金額兌換為Gainful股份。因此，Gainful及OSLL成為本公司之附屬公司，而本集團再次擁有在早前售出之300部電影。

截至二零零四年十二月三十一日止年度，本集團之證券投資業務錄得1,460,000港元之虧損。本集團之上市證券於二零零四年十二月三十一日之市值為41,732,000港元。本集團於二零零五年將審慎管理其上市證券投資。

In March 2004, the Group acquired 40% of the issued share capital of Rainbow Choice Enterprises Limited (“Rainbow Choice”) by investing HK\$30,000,000. Rainbow Choice engaged in the business of producing and distributing of entertainment news programmes in the PRC. The acquisition facilitated the Group’s expansion into the PRC television advertising business. As the performance of Rainbow Choice was not satisfactory, the Group entered into an agreement with the other shareholder of Rainbow Choice in April 2005. Under the agreement, the Group would own the intellectual property rights of the contents produced by Rainbow Choice and the other shareholder of Rainbow Choice would pay HK\$18,000,000 to the Group. As a result, the Group recognized an impairment loss of HK\$12,000,000 for this investment. The carrying value of the Group’s investment in Rainbow Choice was HK\$18,000,000 at 31st December 2004.

At 31st December 2004, the Group employed 30 staff (2003: 26 staff) for its Hong Kong office. Total staff costs (including directors’ remuneration) amounted to HK\$7,142,000 for the year ended 31st December 2004 (2003: HK\$5,592,000). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme and share options.

In addition to staff costs incurred in relation to the above staff, the Group also bears the staffing costs of 天津市星匯音像制品銷售有限公司 (“Tianjin Xinghui”) and 上海昇平文化發展有限公司 (“Shanghai Shengping”) pursuant to the Group’s sub-distributor or agency arrangement (as the case may be) with them. Total staff costs for Tianjin Xinghui and Shanghai Shengping amounted to HK\$3,078,000 for the year ended 31st December 2004 (2003: HK\$2,870,000). To cope with the difficult operating environment, the management reviewed the headcount policy and reduced the headcount of Tianjin Xinghui and Shanghai Shengping to 15 people at 31st December 2004 (2003: 72 people) to create a more efficient infrastructure.

Shareholders’ equity decreased from HK\$337,655,000 at 31st December 2003 to HK\$70,824,000 at 31st December 2004. The decrease was mainly attributed to the allowance made for advances to an associate of HK\$138,531,000 and the impairment losses of HK\$102,797,000 in film rights, other asset, goodwill and investment in securities.

於二零零四年三月，本集團透過投資30,000,000港元收購 Rainbow Choice Enterprises Limited (「Rainbow Choice」) 已發行股本之40%。Rainbow Choice從事中國娛樂新聞節目之製作及發行。是項收購有助本集團拓展中國電視廣告業務。由於 Rainbow Choice 之表現未如理想，本集團與 Rainbow Choice 另一名股東於二零零五年四月達成協議。根據該協議，本集團將擁有 Rainbow Choice 所製作之內容之知識產權，而該名 Rainbow Choice 股東會向本集團支付 18,000,000 港元。因此，本集團就該項投資確認減值虧損 12,000,000 港元。本集團於 Rainbow Choice 之投資於二零零四年十二月三十一日之賬面值為 18,000,000 港元。

於二零零四年十二月三十一日，本集團之香港辦事處僱用30名員工(二零零三年：26名員工)。截至二零零四年十二月三十一日止年度之總員工成本(包括董事酬金)為7,142,000港元(二零零三年：5,592,000港元)。僱員之酬金乃按其表現及工作經驗釐定。除基本薪金及退休計劃外，員工福利亦包括醫療計劃及購股權。

除上述員工所產生之員工成本外，本集團亦須根據本集團與天津市星匯音像制品銷售有限公司(「天津星匯」)及上海昇平文化發展有限公司(「上海昇平」)訂立之轉授發行商或代理商安排(視乎情況而定)承擔該等公司之員工成本。截至二零零四年十二月三十一日止年度，天津星匯及上海昇平之總員工成本為3,078,000港元(二零零三年：2,870,000港元)。為應付艱難之經營環境，管理層檢討僱員人數政策，並將天津星匯及上海昇平之僱員人數裁減至二零零四年十二月三十一日之15名(二零零三年：72名)，以提高架構效率。

股東資金由二零零三年十二月三十一日之337,655,000港元減少至二零零四年十二月三十一日之70,824,000港元。股東資金減少主要與墊付聯營公司款項之撥備138,531,000港元以及電影發行權、其他資產、商譽及證券投資之減值虧損102,797,000港元有關。

During the year, the Group funded its operations mainly from cash generated from operations. At 31st December 2004, the Group's material sources of unutilized liquidity are bank balances and cash amounting to HK\$15,460,000, which were mainly denominated in Hong Kong dollars.

At 31st December 2004, the current ratio was 1.70 (2003: 2.1). The deterioration in the current ratio was attributed to the operating loss incurred for the year. The Group expresses its gearing ratio as a percentage of total borrowings over total shareholders' equity. At 31st December 2004, the Group's gearing ratio was 0.48 (2003: 0.1). The increase was due to the decrease in shareholders' equity.

At 31st December 2004, the Group had outstanding borrowings of HK\$33,800,000 representing the convertible notes payable to First-Up Investments Limited ("First-Up"), a wholly-owned subsidiary of China Star Entertainment Limited ("China Star"), which was unsecured, interest bearing at 1% per annum and maturing on 19th April 2005 and; HK\$8,000 representing the obligations under a finance lease which was secured, interest bearing and maturing on 5th April 2005.

The convertible notes carried the right to convert the whole or any part of the outstanding principal amount of the convertible notes into ordinary shares of HK\$0.10 each in the share capital of the Company at HK\$4.00 per share at any time on or before 19th April 2005 and might be transferred in whole or in part of the outstanding principle amount into share capital of the Company by the holder of the convertible notes. Prior to the maturity, neither the holder of the convertible notes nor the Company had the right to redeem or request for redemption of the convertible notes. On 19th April 2005, the convertible notes matured. First-Up did not exercise the right to convert the outstanding principal amount of the convertibles notes of HK\$33,800,000 into share of the Company and the Company repaid HK\$33,800,000 to First-Up. On the same date, China Star granted a one-year term loan of HK\$33,800,000 to the Company. The loan is unsecured, interest bearing at 1% per annum and repayable on demand.

During the year ended 31st December 2004, the Group had not created any charge on its assets.

The Group adopts a set of treasury policies to ensure a well-balance between cash and listed securities in order to generate an adequate return on the Group's assets.

年內，本集團主要以經營所得現金應付其營運所需。於二零零四年十二月三十一日，本集團之主要未動用流動資金來源為以港幣為主之銀行結存及現金15,460,000港元。

於二零零四年十二月三十一日，流動比率為1.70(二零零三年：2.1)。流動比率轉壞與年內產生之經營虧損有關。本集團之負債比率乃以借貸總額除以股東資金總額計算。於二零零四年十二月三十一日，本集團之負債比率為0.48(二零零三年：0.1)。負債比率上升與股東資金減少有關。

於二零零四年十二月三十一日，本集團有未償還借貸33,800,000港元，為應付China Star Entertainment Limited(中國星集團有限公司)(「中國星」)之全資附屬公司First-Up Investments Limited(「First-Up」)之可換股票據，乃無抵押、以年息一厘計息並於二零零五年四月十九日到期；而未償還借貸8,000港元則為融資租約承擔，乃有抵押、計息並於二零零五年四月五日期。

可換股票據附有權利，可於二零零五年四月十九日或之前隨時按每股4.00港元之價格將可換股票據之全部或部份未贖回本金額兌換為本公司股本中每股面值0.10港元之普通股，而可換股票據持有人可轉換全部或部份未贖回本金額為本公司股本。到期前，可換股票據持有人及本公司均無權贖回或要求贖回可換股票據。於二零零五年四月十九日，可換股票據到期。First-Up並無行使將可換股票據之未贖回本金額33,800,000港元兌換為本公司股份之權利，故本公司向First-Up償還33,800,000港元。於同日，中國星向本公司授予一年期貸款33,800,000港元。該筆貸款乃無抵押、以年息一厘計息，並須於通知時償還。

於截至二零零四年十二月三十一日止年度內，本集團並無以其資產新造任何質押。

本集團採納一系列財政政策，以確保現金與上市證券之間維持平衡，為本集團資產產生充分回報。

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Reminbi, the exchange rate risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

At 31st December 2004, the Group had no material contingent liabilities.

At 31st December 2004, the Group had approximately HK\$5,070,000 worth of signed distribution agreements in its order books. Delivery of these distribution agreements is expected to be completed in 9 months.

Operations Review

In 2004, the Group witnessed the decline in popularity of Hong Kong films in the PRC. The Group believes that the decline is mainly attributed to the increasing popularity of Hollywood films, the rapid changes in consumer tastes and trends and the inability of Hong Kong film producers to develop distinctive genres. In addition to the decline in popularity of Hong Kong films, the Group faces the growing popularity of "Bit Torrent", the widespread availability of pirated video products, the illegal broadcasting by television stations, hotels and long-distance bus operators, and the introduction of macro-economic control measures in the PRC.

For the year ended 31st December 2004, the turnover for distribution of films decreased to HK\$27,285,000, an 83% decrease from HK\$163,722,000 for the previous year. The significant decrease was due to the decrease in the number of films distributed and the decline in average distribution income per new film. During the year, the Group released 10 new films in video format as compared to 19 new films in the previous year. In 2003, the Group sold the video rights of 320 old films to the PRC distributors, whereas 32 old films were sold in 2004. The decline in popularity of Hong Kong films and the rampant piracy place price pressures on the Group's films. During the year, the Group recorded a 45% decrease in the average distribution income per new film compared to the previous year. As the piracy in the PRC continues to proliferate, the Group decided to cease to sell its video products through Carrefour's 27 stores during the year. Accordingly, the Group terminated the sub-distribution arrangement with Tianjin Xinghui in the first quarter of 2005.

由於本集團大部份交易、資產及負債均以港元及人民幣為單位，故本集團之外匯風險極低。因此，本集團並無使用任何金融工具作對沖用途。

於二零零四年十二月三十一日，本集團並無任何重大或然負債。

於二零零四年十二月三十一日，本集團之訂單賬冊內之已簽訂發行協議約值5,070,000港元。預期該等發行協議之交付將於9個月內完成。

業務回顧

於二零零四年，本集團見證了港產片在中國受歡迎程度下跌。本集團相信這與荷里活電影日益流行、消費者口味急速轉變及香港電影製作公司的製作未能自成一格有關。除了港產片受歡迎程度下跌，本集團面對「Bit Torrent」下載日趨流行、盜版影視產品泛濫、電視台、酒店及長途巴士經營商非法播放以及中國實施宏觀調控政策的影響。

於截至二零零四年十二月三十一日止年度，發行電影之營業額由上年度之163,722,000港元減少至27,285,000港元，減幅為83%。該顯著之減幅與影片發行數目減少及每部新片之平均發行收入減少有關。年內，本集團發行10部影視製式之新片，而上年度則為19部新片。於二零零三年，本集團向中國發行商出售320部舊電影發行權之影視權，而於二零零四年則出售32部舊電影發行權。港產片受歡迎程度下跌及盜版活動猖獗令本集團之影片價格受壓。年內，本集團就每部新片之平均發行收入較上年度減少45%。由於中國之盜版活動問題持續，本集團於年內決定停止透過27間家樂福商店銷售其影視產品。因此，本集團於二零零五年第一季終止其與天津星匯之轉授發行商安排。

For the year ended 31st December 2004, the turnover for sub-licensing of films rights amounted to HK\$16,319,000, a 57% decrease compared to HK\$38,006,000 for the previous year. The decrease was mainly attributed to the unfavorable cinema locations and release period in exhibiting the Group's films and a decrease in the number of film rights sub-licensed for hotel and intranet use in the PRC.

As Chinese first-tier cinemas have strong preference for exhibiting Hollywood films, the lifting of foreign film quota restrictions intensifies the competition between Hollywood and Hong Kong. With the dominance of Hollywood films, the Group is not able to negotiate favourable cinema locations and release period in exhibiting its films. In 2004, 2 out of 7 of the Group's new films were exhibited in cinemas after their video releases. The Group's film exhibition revenue was adversely affected accordingly. In the second half of 2004, the Group worked with a PRC distributor to exhibit its films in second-tier cinemas, but the results were not satisfactory due to the illegal exhibition by the nearby cinemas. Due to the difficult operating environment, the Group recorded a 51% decrease in the average exhibition revenue per film compared to the previous year.

During the year, the Group sub-licensed the hotel and intranet distribution rights in respect of 24 films (2003: 100 films) to Gainful. As Gainful faced the illegal broadcasting of the Group's films by hotel operators in the PRC, its business did not progress as planned and no contribution was made to the Group in 2004.

Working with a PRC advertising company, the Group broadcasted its films on 21 provincial terrestrial free television stations in the PRC on every weekend under a program called "Riche's Asian Theatre". Owing to its first year operations and the rampant illegal broadcasting of the Group's films by television stations in the PRC, the business did not contribute positively to the Group's books.

The Group recorded a turnover for sale of advertising of HK\$5,268,000 for the year ended 31st December 2003. No such revenue was generated in the year ended 31st December 2004. As the availability of pirated video products is widespread, the Group saw a sharp drop in demand and price for advertising placements in its video products. Having performed a cost and benefit analysis on its video advertising business, the Group decided to suspend this business in 2004.

於截至二零零四年十二月三十一日止年度，轉授電影發行權之營業額為16,319,000港元，較上年度之38,006,000港元減少57%，主要與戲院地點及本集團電影之放映檔期欠佳以及轉授予中國酒店及內聯網使用之電影發行權數目減少有關。

由於中國的高檔戲院傾向於放映荷里活電影，外國電影配額限制之放寬加劇了荷里活與香港電影之競爭。鑑於荷里活電影風行，本集團未能為其電影磋商於理想地點之戲院及檔期放映。於二零零四年，本集團之7部新片中有2部乃於其影碟推出後在戲院放映，令本集團之電影放映收入大受影響。在二零零四年下半年本集團與中國一家發行商合作將本集團之電影安排在中檔戲院放映，但由於鄰近戲院之非法放映令成績未如理想。由於經營環境困難，本集團每部電影之平均放映收入較上年度減少51%。

年內，本集團向Gainful轉授有關24部電影（二零零三年：100部）之酒店及內聯網發行權。面對中國之酒店經營者非法播放本集團之電影，Gainful之業務未能如計劃般發展，於二零零四年並無為本集團帶來貢獻。

本集團與一家中國廣告公司合作，於中國21個省級免費電視台每個週末之「豐采亞洲影院」節目內播放本集團之電影。由於屬首年運作及面對中國其他電視台非法播放本集團電影之活動猖獗，該業務未能為本集團之賬目帶來貢獻。

本集團於截至二零零三年十二月三十一日止年度錄得銷售廣告權之營業額5,268,000港元。於截至二零零四年十二月三十一日止年度並無錄得有關收入。由於盜版影視產品泛濫，在本集團之影視產品投放廣告之需求及價格均大幅下跌。經就其影視廣告業務之成本效益作出分析後，本集團於二零零四年決定停止該業務。

As mentioned in the Company's 2003 annual report, the Group carried out a study for providing a "cross-media advertising service" to advertising agencies and corporate clients. Such service involved the placement of advertisement in the Group's various existing and future distribution media, such as video products, cinemas, television, transportation and hotels etc. However, the advertising service has never been launched due to the rampant piracy and illegal broadcasting by various media.

To capture the growth on advertising spending, the Group ventured into television advertising business by acquiring 40% interest in Rainbow Choice. The distribution of television programmes is commonly conducted on a barter basis, through which television stations offer advertising spots to distributors in exchange for television programmes. Due to a flood of similar programmes in the market, Rainbow Choice failed to build up a strong television networks and obtain advertising spots at prime time within the first six months of its operations. The management team of Rainbow Choice decided to cease its business in first quarter 2005.

On 5th February 2002, the Group entered into a territory supply agreement with China Star International Distribution Limited ("CSIDL"), a wholly-owned subsidiary of China Star, whereby CSIDL granted in favour of the Group a first right of refusal to acquire the exclusive distribution rights (excluding the theatrical and internet rights) in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia in respect of China Star Group's films for a period of three years from 8th April 2002 and an option to acquire the theatrical rights of such films.

In view of the decline in popularity of Hong Kong films, the Group decided not to renew the territory supply agreement with CSIDL upon its expiry in April 2005. The Group believes that the non-renewal of the territory supply agreement provides it with a greater flexibility in acquiring film rights for distribution.

Expand into a New Business

On 9th April 2005, the Group entered into a conditional sale and purchase agreement with Leadfirst Limited ("Leadfirst") and Mr. Benny Ki, pursuant to which the Group would acquire 100% of the issued share capital of Best Winning Group Limited (the "Acquisition") for a consideration of HK\$600,000,000. The consideration shall be satisfied by the issue of a convertible notes of HK\$500,000,000 and the payment of cash of HK\$100,000,000.

如本公司之二零零三年年報所述，本集團就向廣告代理商及企業客戶提供「跨媒體廣告服務」進行研究。該服務涉及於影視產品、戲院、電視台、運輸及酒店等多個本集團現有及日後之發行媒體投放廣告。然而，由於盜版活動猖獗及不同媒體之非法播放，該廣告服務從未推出。

為把握廣告開支增長所帶來之商機，本集團透過收購Rainbow Choice之40%權益開拓電視廣告業務。電視節目之發行通常以交換之形式進行，當中電視台為發行商提供廣告時段以換取電視節目。由於類似節目在市場泛濫，Rainbow Choice在營運之首六個月未能建立起強大之電視網絡及取得黃金時段之廣告檔位。Rainbow Choice之管理層於二零零五年第一季決定終止該業務。

於二零零二年二月五日，本集團與中國星之全資附屬公司China Star International Distribution Limited(「CSIDL」)訂立地區供應協議，據此CSIDL向本集團授予可購入中國(香港、澳門及台灣除外)及蒙古有關中國星集團之電影獨家發行權(不包括戲院及互聯網放映權)之優先選擇權，由二零零二年四月八日起為期三年，並可選擇購入該等影片之戲院放映權。

由於港產片之受歡迎程度下跌，本集團已決定於地區供應協議在二零零五年四月到期時不再向CSIDL延續。本集團相信不延續地區供應協議對本集團在購入電影發行權上更具靈活性。

開拓新業務

於二零零五年四月九日，本集團與Leadfirst Limited(「Leadfirst」)及紀明寶先生訂立有條件買賣協議，據此本集團以代價600,000,000港元購入Best Winning Group Limited之100%已發行股本(「收購事項」)。代價乃以發行500,000,000港元之可換股票據及支付現金100,000,000港元作付。

Best Winning Group Limited (“Best Winning”) has been appointed as the sole and exclusive service provider for the promotion and introduction of customers to Radisson Diamond (to be renamed as Asia Star) and the provision of rolling and settlement service for customers of the gaming establishment on board Radisson Diamond for a term of 3 years with an option to renew for another 3 years. In consideration of the service provided by Best Winning, Best Winning shall be entitled to receive:

- (i) a management fee of 1.7% of the rolling turnover of the gaming establishment; and
- (ii) 40% of the monthly profit of the gaming establishment.

Leadfirst has agreed to procure that the annual rolling turnover of the gaming establishment on board Radisson Diamond for the first year of operations shall not be less than HK\$60,000,000,000. Upon the completion of the Acquisition, Mr. Benny Ki will be engaged as the general manager of the Company.

Subject to the fulfillment of the conditions set out under the agreement, the Acquisition is expected to be completed in August 2005.

Future Prospects

The drop in license fees in the PRC is stabilized in the first quarter of 2005. Recent visits with the PRC distributors reveal that there is still a market for high quality Hong Kong films with distinctive genres and well-developed marketing and promotion plans. With the efforts being made by the industry to revitalize Hong Kong films, the directors believe that the market consolidation is nearly completed.

The directors will continue to cautiously monitor the business environment and continue to strengthen its business foundations by implementing prudent cost control and adopting a more cautious approach in acquiring film rights and exploring new distribution media to protect the interests of the Company's shareholders.

With the downturn of Hong Kong films in the PRC, the Group has been proactively identifying suitable investment opportunities to develop its business. Given the prospects of the gaming industry, the investment in Best Winning matches with the Group's business development strategy in diversifying its businesses. The directors believe that Best Winning will provide the Group with a more reliable revenue stream and will have a positive impact on the Group's earning potential.

Best Winning Group Limited (「Best Winning」) 已獲委任為獨家服務提供者，負責推廣 Radisson Diamond (將改名為 Asia Star) 及為其招攬客戶，並為 Radisson Diamond 船上之賭博場所之客戶提供轉碼及結算服務，該項委任為期三年，可選擇續期三年。Best Winning 就提供其服務可取得：

- (i) 賭博場所之轉碼營業額之1.7%作為管理費；及
- (ii) 賭博場所之每月盈利之40%。

Leadfirst 已同意促使 Radisson Diamond 船上之賭博場所在首個營運年度之全年轉碼營業額不少於 60,000,000,000 港元。當收購事項完成後，紀明寶先生將獲聘為本公司之總經理。

收購事項預期於二零零五年八月完成，惟有待協議所載之條件達成方可作實。

未來前景

中國電影之發行權費於二零零五年第一季停止下跌。本公司近期接洽中國發行商，發現類型獨特以及具備完善之市場推廣及宣傳計劃之優質港產片仍有市場。憑藉業界對振興港產片之努力，董事相信市場已差不多完成整合。

董事會繼續密切注視業務環境，並繼續透過嚴格控制成本及在購入電影發行權方面採取更審慎方針，加強業務基礎，同時發掘嶄新之發行媒體以保障本公司股東之利益。

由於香港電影在中國的發展停滯不前，本集團積極探求合適的投資機會以發展業務。鑑於博彩業前景理想，投資 Best Winning 符合本集團分散業務之業務發展策略。董事相信，Best Winning 將為本集團提供可靠的收入來源，並增強本集團之盈利潛力。