

## Chairman's Statement

### RESULTS AND DIVIDENDS

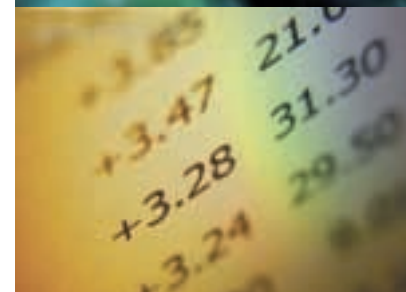
The loss attributable to shareholders of the Group for the year was HK\$29,100,000 (2004: HK\$5,578,000) and the directors do not recommend the payment of any dividend for the year ended 31st March 2005. (2004: Nil)

### MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31st March 2005, the Group recorded a consolidated turnover of HK\$147,321,000 (2004: HK\$175,205,000), a decrease of 16% compared with last year. Loss attributable to shareholders during the year was HK\$29,100,000 (2004: HK\$5,578,000), after the provision for obligations in and amounts due from associated companies of HK\$26.7 million.

The Group operates in the following major business segments, the sale and distribution of video products; film exhibition, film rights licensing and sub-licensing; and television operations, which contributed 56% (2004: 76%), 21% (2004: 11%) and 23% (2004: 13%) of the Group's turnover respectively.

Following the conclusion of content supply contracts with pay-TV operators including now TV, HK Broadband and Cable TV in the past years, the contribution of revenues from the Group's television segment has increased from 13% to 23%. Since the launch of its first broadcasting channel (namely MATV1) in 2001, which provides movies from the Group's film library and other programs from its business partners, the Group has continuously explored various sources of revenue streams from its television operations. In 2004, the Group secured contracts with the operators of HK Broadband to provide movie channels and now TV to provide a drama channel. In 2005, additional contracts were also entered into with other television operators locally and overseas, as well as certain mobile phone operators to provide channel contents. Other than films and drama channels, the Group will continue to develop channels comprising other programs. Equipped by the Group's film library and through the Group's experience and network in program sourcing, the Group is confident that it will continue to provide high quality and customised TV programs to the audiences. The Group also believes that its television segment still has huge potential of growth and will continue to bring significant and increasing contribution to the Group. Following the plan of digital TV signal development in Hong Kong and China which allows more broadcasting channels than the existing analogue system, the demand for TV channel contents is expected to increase significantly and the Group believes that it will receive fruitful and encouraging rewards from those new market opportunities and enjoy the prospectus of its television operations.



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### MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Compared with 2004, the Group has allocated an increased amount of resources in the production of films. During the year, five films namely "The Foliage", "My Sweetie", "It had to be you", "Beyond our Ken" and "AV" were released by the Group and two namely "Love Battlefield" and "Hidden Heroes" were released by an associated company. Subsequent to 31st March 2005, two more films, namely "Colour of the Loyalty" and "Dragon Reloaded 2" were produced and released by the Group plus certain number which are being produced and planned. All of these films received appreciable performances and responses from the markets in their theatrical, video discs releases, overseas sub-licensing and pre-sale. In addition, the Group's films also receive encouraging feedback and awards during their participations in a number of film festivals worldwide. Looking forward, the Group will continue to invest and offer its utmost support in Hong Kong's film production industry and aims to produce high quality and welcoming films.

Affected by the overall industrial climate, in particular the increasing popularity of copyright infringement behaviour such as downloading through internet, copying through re-writable disc drives and those shops which offer rental of video discs to customers, the business of sale and distributions of video discs is becoming difficult and accordingly its revenues and results in respect of the segment of sale and distribution of video products were dropped during the year. Nevertheless, the Group will continue to acquire welcomed and popular films and diversify its distribution channels in order to maintain its competitiveness.

In May 2004, the Group disposed of its entire interest in M21 Technology Limited ("M21"), an associated company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited at a consideration of approximately HK\$25 million and brought a gain on disposal of approximately HK\$15.6 million for the year. The directors consider the disposal represented a good opportunity for the Group to realise its investment in M21 and the proceeds also enable the Group to strengthen its working capital and concentrate its financial resources into its three main core businesses as mentioned above.

Following the implementation of stringent cost control measures, the Group's administrative expenses were decreased by 8%. In order to simplify the organisational structure and enhance the efficiency, the Group has recently appointed an agent company to handle the logistic procedures in respect of its sale and distributions of video discs. The Group's working capital and gearing position (details as set out in the paragraph headed "Liquidity and financial resources" below) has also been improved following the continuous repayment of loans raised during the construction of its head quarter in Tseung Kwan O. Looking forward, the Group will exploit every opportunities to generate greatest returns for its shareholders.

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### LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2005, the Group has available banking facilities of approximately HK\$65 million, of which approximately HK\$44 million were utilised. Certain of the Group's properties with net book values of HK\$155 million were pledged to banks to secure banking facilities. The Group's gearing ratio of 19% as at 31st March 2005 was based on the total of bank loans, overdrafts and obligations under finance leases of approximately HK\$41,765,000 (of which HK\$21,059,000, HK\$5,777,000, HK\$13,070,000 and HK\$1,859,000 are repayable within one year, in the second year, in the third to fifth year and after the fifth year respectively) and the shareholders' funds of approximately HK\$220,104,000. The Group's borrowings and bank balances are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign currency fluctuations.

At 31st March 2005, the Group had contingent liabilities in respect of guarantees given to banks for facilities of associated companies amounting to approximately HK\$5.3 million, and commitments in respect of film production, acquisition of film rights and others amounting to approximately HK\$17 million. The commitments will be financed by the Group's internal resources and banking facilities.

### EMPLOYEES

At 31st March 2005, the Group employed 59 (2004: 59) staff. Remuneration is reviewed annually. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and contributory provident fund. The Group also has a share option scheme whereby qualified employees may be granted options to acquire shares of the Company.

### Li Kuo Hsing

*Chairman*

Hong Kong, 28th July 2005

