

## Chairman's Statement

### RESULTS AND DIVIDENDS

The profit attributable to shareholders of the Company for the year is HK\$20,378,000 (2005: loss of HK\$29,100,000) and the directors recommend the payment of a final dividend of 0.35 HK cent per share (2005: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31st March 2006, the Group recorded a consolidated turnover of HK\$153,394,000 (2005: HK\$147,321,000), an increase of 4% compared with last year. Profit attributable to shareholders during the year was HK\$20,378,000 (2005: loss of HK\$29,100,000).

The Group operates in three major business segments, the television operations, film exhibition, film rights licensing and sub-licensing and sale and distribution of video products, which contributed 41% (2005: 23%), 27% (2005: 21%) and 32% (2005: 56%) to the Group's turnover respectively.

Following the conclusion of content supply contracts with pay-TV operators in the recent years, the contribution to revenues from the Group's television segment has increased by 83% from HK\$33,885,000 to HK\$62,151,000. The proportion of such revenues to the Group's turnover was also increased from 23% to 41%. Since the launch of its first broadcasting channel 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. As at 31st March 2006, the Group provided channels to HK Broadband, now TV, i-Cable and Malaysia MiTV. The Group has also commenced to provide contents to a Japanese pay TV platform since May 2006. In addition, contracts have also been secured with certain mobile phone operators to provide channel contents. Looking forward, the Group aims to provide channels to other Asian countries and secure advertising revenue from available air-time in TV channels, and develop channels with increasing varieties.

The Group will continue to strengthen its film library through own production, co-production and acquisition. 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 increasing popularity of pay TV in Hong Kong and the digitalisation plan of TV signal 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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In order to support its content requirement, the Group has allocated an increased amount of resources in the production of films. The revenues from film exhibition, film rights licensing and sub-licensing to third parties increased from HK\$30,849,000 to HK\$41,958,000. During the year ended 31st March 2006, "Colour of Loyalty", "Dragon Reloaded 2", "Embrace Your Shadow", "Dragon Squad", "Super Kid" and "Marriage with a Fool" were released by the Group. Subsequent to 31st March 2006, two more films, namely "Undercover Hidden Dragon" and "Love Undercover 3" were also released. Certain number of films are being produced and planned. All of these films received positive responses from the market. "Dragon Squad" is the first and the only movie elected by the National Museum of China for its permanent preservation in respect of the memorisation of the 100th anniversary of the Chinese film. 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 popular films.

The revenues attributable to sale and distribution of films and programs in audio visual product format was dropped from HK\$82,587,000 to HK\$49,285,000, as a result of the Group's strategy in diversifying its revenue mix and re-allocation of the Group's resources, as well as the effect of the relevant industrial environment.

The performance of the segment of video sales and distribution has been affected by the overall industrial climate. Fewer new titles were released during the year and the competition is keen. Following the increasing popularity of copyright infringement behaviour such as downloading through internet, copying through re-writable disc drives and shops which offer rental of video discs to customers, the business of sale and distributions of video discs has become difficult. Nevertheless, the Group will continue to acquire customised and popular films and diversify its distribution channels in order to maintain its competitiveness. In order to simplify the organisational structure and enhance operating efficiency, the Group has also appointed a distribution agent to handle the logistic procedures in respect of the distribution segment which led to a decrease in the Group's administrative and other expenses.

To cope with the Group's business development and expansion, the Group has recently entered into certain fund raising activities. In March 2006 the Company entered into placing agreements with funds managed by International Data Group, Inc. ("IDG"), a leading worldwide provider of information technology services to raise HK\$16.3 million for working capital. The agreement was completed and shares were allotted in April 2006. On 28th June 2006, the Company also entered into agreements to issue convertible notes to three subscribers which is pending for shareholders' approval on a special general meeting to be held on 4th August 2006. The net proceeds from the proposed issuance of convertible notes will be HK\$96.5 million, which is proposed to be utilised in the acquisition of film titles to enrich our film library, repayment of bank loans to minimise our finance costs, development of new media projects and enhancement of working capital. The Company believes that it will also be benefited from the broadened shareholders' base and its extended exposure to the global entertainment industry.



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The Group's gearing position (details as set out in the paragraph headed "Liquidity and financial resources " below) has also been improved continuously following the repayment of loans raised for 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 and reward their long-term support.

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### LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2006, the Group had net current liabilities of HK\$53,465,000. Nevertheless, the Group's film rights, films in progress, film sub-licensing rights and deposits, which are classified as non-current assets, generated revenues for the core businesses of the Group continuously. Together with the fund raising activities as mentioned above, the directors are confident that the working capital available will be adequate for the Group's requirements.

At 31st March 2006, the Group had available banking facilities of approximately HK\$53 million, of which approximately HK\$45 million was utilised. Certain of the Group's properties with net book values of HK\$159 million were pledged to banks to secure these banking facilities. The Group's gearing ratio of 18 % as at 31st March 2006 was based on the total of bank loans, overdrafts and obligations under finance leases of approximately HK\$41,698,000 (of which HK\$26,304,000, HK\$5,474,000, HK\$8,121,000 and HK\$1,799,000 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\$238,203,000. 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 2006, the Company had contingent liabilities in respect of guarantees given to banks for facilities of its subsidiaries amounting to approximately HK\$64 million, and the Group had commitments in respect of film production and program licencing agreements amounting to approximately HK\$13 million. The commitments will be financed by the Group's internal resources and banking facilities.

### EMPLOYEES

At 31st March 2006, the Group employed 45 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, 26th July 2006

