



PROFESSIONAL

"We will continue to strengthen our film library through our own productions, co-productions and/or acquisitions, and by fully utilising our experience and programme-sourcing network.

Supported by our strong artiste base and outstanding industry expertise, the Group expects to grow and gain a larger share in both the local and international markets."



MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's turnover for continuing operations amounted to HK\$37.3 million during the year ended 30 June 2006, which was 33% less than the previous year's figure of HK\$56 million. This was mainly due to a change in our focus from trading multimedia electronic products to the entertainment and media businesses. The Group's operations in these two areas were still in the formation and development stages. Gross profit for continuing operations for the year was HK\$23.1 million before the amortisation of film rights, and HK\$4.3 million after taking this amortisation into account. On the same basis, the gross profit for the previous year was HK\$5.2 million.

The Group suffered a loss from operations of HK\$55.7 million on continuing operations during the year, compared with a loss of HK\$21.1 million the previous year. Our share of the losses of associates amounted to HK\$148 million. The net loss for the year attributable to equity holders was HK\$261.9 million, compared with HK\$36.8 million the previous year. The substantial increase in the net loss was primarily due to the disappointing results of our newly acquired associates, an impairment loss of HK\$40.4 million on goodwill concerning the acquisition of subsidiaries and associates, an impairment loss of HK\$4.4 million on film rights, and a HK\$13.7 million impairment loss on trade and other receivables. The loss per share for the year was HK\$0.125, compared with HK\$0.095 during the previous year.

REVIEW OF OPERATIONS

During the year under review, our Group's focus changed from trading multimedia electronic products to the entertainment and media businesses. We terminated our multimedia electronic products trading and system-integration businesses in February 2006. Consequently, the Group's entertainment businesses accounted for 93% of our total turnover during the year. These can be categorised into film and TV programme production, music production, event production and artiste and model management segments. The acquisition of a 49% interest in TVB Pay Vision Holdings Limited ("TVB Pay Vision") (formerly known as Galaxy Satellite TV Holdings Limited) was completed in August 2005. TVB Pay Vision is treated as interests in associates for the purposes of this report.

Entertainment

Film and TV programme production

The Group produced a number of films during the year. "Kung Fu Mahjong II" was released in November 2005; "Superkid" was released in February 2006; and "Don't Open Your Eyes" was released in May 2006. Production of the "Brave New World" TV series was completed, and distribution of it commenced in January 2006. Box-office and licensing income from these films and TV programmes amounted to HK\$19.8 million.

Film/TV programme production



Management Discussion and Analysis (Continued)

In addition, the Group produced a number of high-definition (HD) films during the year. They included "The Dragon Gate Post", "Bliss", "Luxury Fantasy" and "Sound of Pure". "Bliss" won the Netpac award at the 59th Locarno International Film Festival. As at 30 June 2006, the total cost of film rights less accumulated amortisation and impairment was HK\$22.5 million. The Group was also in the process of producing a number of new films and TV programmes. The total production costs incurred up to 30 June 2006 amounted to HK\$29.1 million.

Music production

We regard our music production activities as complementary to our artiste management business. They serve to enhance and promote the image of our artistes, as well as generate profit for the Group.

Our artistes released several music albums during the year under review, including one by Baby Zhang launched in Hong Kong in April 2006, and another by Dicky Cheung launched in Taiwan in December 2005. Hong Kong new rock band "Dear Jane" also released an album in August 2006. The Group is currently producing albums by Patrick Tang, whose songs have occupied top positions in several local and PRC music charts, and these are scheduled for release during the coming months. Revenue from the sale of music albums totalled HK\$0.5 million during the year under review. We are also producing several albums for some of our new artistes. The total production costs incurred up to 30 June 2006 amounted to HK\$1.9 million.

Event production

The Group organised several events during the year, including a concert by Eason Chan in Guangzhou during July 2005. We also co-organised another concert by Vivian Chow in Hong Kong during May 2006. Both of these were well received by the two singers' fans.

The Group's turnover and gross profit from our event productions amounted to HK\$4.7 million and HK\$0.7 million, respectively. Although the event production business's contribution was small, it helped to promote the Group's image and prestige.

Artiste and model management

A number of artistes and models joined the Group during the year under review, increasing the total number we had under contract to over 30, as of 30 June 2006. We have invested heavily in the professional and artistic development of the new artistes and models that we recruited, with very promising results. Meanwhile, our established artistes and models (including Dicky Cheung, Patrick Tang, Annie Man, Eunis Chan, Kathy Chow, Lynn Xiong, Yedda Chao, etc.) participated in a number of different fashion shows, advertisements,

Film/TV programme production



Management Discussion and Analysis (Continued)

films and TV programmes. The turnover and gross profit of this business sector rose considerably during the year, amounting to HK\$9.9 million and HK\$2.9 million, respectively. At the same time, the quality of our team members made a substantial contribution to raising our Group's overall image.

Multimedia Electronic Products

The Group's multimedia and electronic products operations ceased doing business in February 2006. Consequently, their turnover declined from HK\$53.3 million the previous year to HK\$2.4 million during the year under review; while their gross profit fell from HK\$5.1 million to HK\$0.3 million.

Telecommunication and System Integration

This business operation ceased in February 2006. Its turnover dropped from HK\$3.2 million to HK\$0.5 million, and gross profit from HK\$0.4 million to HK\$0.3 million.

Associates

The acquisition of a 49% interest in TVB Pay Vision was completed in August 2005. The Group's share of this company's loss between September 2005 and June 2006 amounted to HK\$148 million.

GEOGRAPHICAL REVIEW

During the year under review, most of the Group's revenue was derived from the Hong Kong and Mainland China markets. These accounted for about 94% of our total turnover.

MATERIAL ACQUISITION

The Group completed the first and second closing of our acquisition of a 49% interest in TVB Pay Vision in August 2005 and February 2006, respectively. This acquisition represents a further investment in the media and entertainment business.

FUTURE BUSINESS PROSPECTS AND PLANS

Several of the Group's new films and TV programmes have been completed. One of these, "Wo Hu", is being released in October 2006; while "The Beauties" will be premiered next year. Our production plans include several Class B films aimed at the international market. Production of several HD films and TV programmes has been completed, and the Group intends to release them in the coming year, when HD TV channels start broadcasting.



Music production



Event production



Management Discussion and Analysis (Continued)

Besides engaging local film directors, producers and actors, the Group will continue to expand our film library through our own productions and co-productions, including partnerships with international production companies and talents from China, Japan and South Korea.

Many potential new opportunities and resources have opened up for the Hong Kong film industry since the implementation of CEPA (the Closer Economic Partnership Arrangement) and the rapid improvement and expansion of Mainland China's film and TV markets. In his Policy Address, the Hong Kong SAR Chief Executive announced that the Government will establish the Hong Kong Film Development Council. This new policy is expected to provide further support and assistance to local film production companies, and to enhance the quality of their productions. In particular, we look forward to the benefits the new Council is likely to offer us in terms of helping to strengthen our marketing and other areas of professional expertise.

In our artiste and model management operations, the Group has already recruited a group of new artistes and models, whose talents will be developed through various types of training, such as acting, singing and dancing. We will also provide opportunities for the new artistes and models to appear in public performances, films and TV programmes, concerts and live shows. The Group will also continue to seek out other artistes and models to add to our portfolio.

The number of TVB Pay Vision's paying subscribers has increased steadily. Besides distributing its content via its own satellite master antenna television system and Hutchison Global Communication Limited's broadband services, TVB Pay Vision concluded another distribution agreement with PCCW Limited to make some TVB Pay Vision Limited channels available to subscribers of NOW Broadband TV in February 2006. These include TVBS-Asia, TVBS-News and eight exclusive TVB channels (TVBN, TVBN2, TVB Classic, TVB Entertainment News Channel, TVB Drama, TVB Lifestyle, TVB Kids and TVBM). This increases the number of bundled channels to a total of 20. The number of the service's subscribers and homepassed will increase significantly as a result of the additional distribution channel.

FINANCIAL REVIEW AND LIQUIDITY

As at 30 June 2006, the Group's net assets amounted to HK\$156.1 million, compared with HK\$72.3 million on the same date last year. The current ratio, representing current assets divided by current liabilities, was 1.80. The Group's cash and bank balances amounted to HK\$148.4 million on the balance sheet date.

Artiste and model management



Management Discussion and Analysis (Continued)

The Group issued convertible notes for a principal amount of HK\$170 million during the year. On 30 June 2006, the fair value of the liability component of these convertible notes was approximately HK\$135.7 million. On the balance sheet date, the Group had a short-term loan from a third party of HK\$109 million and short-term bank borrowing of HK\$10.1 million. The gearing ratio, as a ratio of total borrowings over total assets, was 0.58.

The Group had contingent liabilities of HK\$24 million on the balance sheet date, mainly as a result of a corporate guarantee we provided to a financial institution in respect of banking facilities granted to former subsidiaries. HK\$5.5 million of the banking facilities were utilised by those former subsidiaries and this amount was subject to a claim by the financial institution concerned.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

During the year, the revenue and cost for film/TV programme, music and event production were mainly denominated in Renminbi and Hong Kong dollars. The revenue and cost for the artiste and model management services were also mainly dominated in Renminbi and Hong Kong dollars. The sale of multimedia electronic products and the purchase of raw material for their productions were mainly denominated in US dollars, Renminbi and Hong Kong dollars.

Borrowings in terms of loans and convertible notes were also denominated in Hong Kong dollars. As the exchange rates of Hong Kong dollars against US dollars and Renminbi were relatively stable during the year, the Group's exposure to fluctuations in exchange rates was minimal.

The Group will closely monitor the foreign currency exposure and to arrange for hedging facilities when necessary.

EMPLOYEE SCHEMES

As at 30 June 2006, the Group has 60 employees (58 based in Hong Kong and 2 based in PRC) within the Group. The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from provident fund scheme and in-house training programmes, medical insurance scheme, discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performances.

Artiste and model management



Management Discussion and Analysis (Continued)

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

1. The Company and its ex-subsidiary P.N. Electronics Ltd. ("PNE") have been involved in arbitration proceedings with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings were initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The Company has upon legal advice, vigorously contested the alleged claims and has counterclaimed the said sum of HK\$18 million as well as other damages. The arbitration proceedings have been dormant for a substantial period of time and the Company is considering whether any further action should be taken in respect of the same.
2. On 13 October 2003, a Writ of Summons and Statement of Claim was issued by BII Finance Company Limited ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain liabilities of Welback Enterprises Limited. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (approximately HK\$1,936,000), together with interest.

The Company has issued Third Party proceedings against Mr. Lee Chun Kwok and Mr. Fong Wing Seng, former directors of the Company, seeking a contribution to the extent of 49% of BII Finance's claim in the event that the Company is found liable to BII Finance (which is denied).

The Company will continue to defend BII Finance's claim, and will also continue to pursue the Third Party proceedings against Mr. Lee Chun Kwok and Mr. Fong Wing Seng. The parties have yet to exchange witness statements in the main action. The Company has filed its Reply in the Third Party proceedings on 20 March 2006.

Save as disclosed above, no member of the Group is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

Artiste and model management



TVB Pay Vision

