

## Chairman's Statement | 主席報告

On behalf of the board of directors (the "Board"), I am pleased to present the audited results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2003.

### OVERALL PERFORMANCE

For the year ended 31st December, 2003, the Group recorded a turnover of HK\$206,996,000, a 131% increase from HK\$89,443,000 for the previous year. The net profit attributable to shareholder for the year was HK\$117,129,000, whereas the Group recorded a net loss of HK\$25,285,000 for the previous year.

Such significant turnaround in the overall performance was due to the Group's efforts to diversify its earnings base in terms of activity and shifting its geographical focus to the Mainland China market in the last two and a half year.

### DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31st December, 2003 (2002: Nil).

### BUSINESS REVIEW

The Group's three core businesses, namely, distribution of films, sub-licensing of film rights and sale of advertising rights accounted for 79%, 18% and 3% of the Group's total turnover for the year ended 31st December, 2003, respectively.

Turnover derived from the People's Republic of China (the "PRC") and Hong Kong & Macau for the year ended 31st December, 2003 accounted for 98% and 2% of the Group's total turnover respectively.

本人謹此代表董事會(「董事會」)呈報本公司及其附屬公司(「本集團」)截至二零零三年十二月三十一日止年度之經審核業績。

### 整體業績表現

截至二零零三年十二月三十一日止年度，本集團錄得營業額206,996,000港元，較去年之89,443,000港元增加131%。本年度之股東應佔溢利淨額為117,129,000港元，去年本集團則錄得虧損淨額25,285,000港元。

整體業績表現顯著回升乃由於本集團於過去兩年半以來致力擴展其業務之盈利基礎，以及將其地區重點轉移至中國內地市場所致。

### 股息

董事會並不建議派發任何截至二零零三年十二月三十一日止年度之股息(二零零二年：無)。

### 業務回顧

截至二零零三年十二月三十一日止年度，本集團三項核心業務為發行電影、轉授電影發行權及銷售廣告權，分別佔本集團總營業額79%、18%及3%。

截至二零零三年十二月三十一日止年度，來自中華人民共和國(「中國」)及香港與澳門之營業額分別佔本集團總營業額98%及2%。

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### Distribution of films

The turnover of distribution of films for the year increased significantly by 377% to HK\$163,722,000 (2002: HK\$34,320,000). During the year under review, the Group distributed 339 films in video format (2002: 41 films). The Group saw an increase in the average distribution income per new film. It was mainly resulted from the well received of the Group's films and the strong demand on home entertainment audio-visual products in the PRC. The improvement in the Group's gross profit margin was also attributed to the sale of video rights in respect of two lots of old films to the PRC distributors as the cost of which had almost been fully amortised in previous years.

In order to reduce its reliance on the distribution networks of the PRC video distributors and to respond swiftly to market needs, the Group acquired Legend Rich Limited ("Legend Rich") in January 2003. Through Legend Rich's PRC sub-distributor, 天津市星匯音像制品銷售有限公司 ("Tianjin Xinghui"), the Group's video products are sold in 27 stores operated by Carrefour which are situated in 24 cities in the PRC. Additionally, the Group's video products are sold in other local and international supermarket chain stores in the PRC.

With its established distribution network in the PRC, the Group will continue to acquire distribution rights to a different variety of quality films. The Group will also be looking for various ways to further expand its distribution network.

### Sub-licensing of film rights

The turnover of sub-licensing of film rights for the year decreased by 13% to HK\$38,006,000 (2002: HK\$43,523,000). The decrease was mainly attributed to a decrease in turnover from the sub-licensing of film rights for hotel and intranet use in the PRC from 200 in the year ended 31st December, 2002 to 100 in the year ended 31st December, 2003.

During the year, the Group sub-licensed the hotel and intranet rights in respect of 100 films (2002: 200 films) to its associated company, Gainful Fortune Limited ("Gainful"). As the business of Gainful is still at development stage, no contribution had been made to the Group by Gainful in 2003.

### 發行電影

本年度發行電影之營業額大幅增加377%至163,722,000港元(二零零二年: 34,320,000港元)。於回顧年度內, 本集團發行339部影視制式之電影(二零零二年: 41部電影)。本集團每部新電影之平均發行收入均有所增加, 主要由於本集團之電影廣受歡迎, 而中國之家庭娛樂影視產品需求殷切所致。本集團之毛利率亦有所改善, 此乃由於向中國發行商銷售兩批成本已於過往年度幾乎作出全數攤銷之舊電影之影視節目發行權所致。

為減低對中國影視發行商之發行網絡之倚賴及迅速回應市場需求, 本集團於二零零三年一月收購Legend Rich Limited(「Legend Rich」)。透過Legend Rich之中國轉授發行商天津市星匯音像制品銷售有限公司(「天津星匯」)將本集團之影視產品在家樂福於中國24個城市經營之27間商店銷售。此外, 本集團之影視產品亦於中國其他本地及國際超級市場連鎖店銷售。

憑藉於中國建立之發行網絡, 本集團將繼續收購多類優質電影之發行權。本集團亦將發掘其他途徑進一步拓展其發行網絡。

### 轉授電影發行權

本年度轉授電影發行權之營業額下跌13%至38,006,000港元(二零零二年: 43,523,000港元)。有關下跌主要由於在中國轉授電影之酒店及內聯網發行權之營業額由截至二零零二年十二月三十一日止年度之200部減少至截至二零零三年十二月三十一日止年度之100部所致。

年內, 本集團向其聯營公司Gainful Fortune Limited(「Gainful」)轉授100部電影(二零零二年: 200部電影)之酒店及內聯網發行權。由於Gainful之業務尚處於發展階段, 故Gainful於二零零三年並無對本集團帶來貢獻。

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In order to strengthen the Group's distribution network for 35-mm films, the Group acquired World East Investments Limited ("World East"). Through World East's PRC agent, 上海昇平文化發展有限公司 ("Shanghai Shengping"), the Group has established business relationship with some PRC film distributors for the release of the Group's films in cinemas in the PRC. This enables the Group to increase the number of cinemas that will exhibit its films in the PRC.

Subsequent to the year-end, the Group has established a sub-licensing arrangement with a PRC sub-licensee for broadcasting the Group's films in the provincial terrestrial free television stations in the PRC. Pursuant to the arrangement, the Group's films are sub-licensed to the PRC sub-licensee for broadcasting in the provincial terrestrial free television stations on every weekend under a prime-time program called "Riche's Asia Theatre". The Group sub-licensed the television rights in respect of 9 films to the PRC sub-licensee in the first two months of 2004. The first film began airing in January 2004 on 21 provincial terrestrial free television stations in the PRC. According to the studies carried out by the PRC sub-licensee, the Group's films are well received by the PRC viewers and the viewers' number is inching its way up.

With its content rich film library, the Group will actively explore new distribution media for its films in the PRC, such as other television networks and transportation, i.e. airline, ships and buses, in order to create additional revenue stream for the Group.

### Sale of advertising rights

The turnover of sale of advertising rights for the year decreased by 55% to HK\$5,268,000 (2002: HK\$11,600,000). During the year under review, the Group sold the advertising rights of 13 films as compared to 29 films in 2002. The decrease was mainly attributed to the postponement of advertisement placements by the PRC advertising agencies during the outbreak of Severe Atypical Respiratory Syndrome.

為加強本集團35毫米電影之發行網絡，本集團已收購World East Investments Limited (「World East」)。透過World East之中國代理商上海昇平文化發展有限公司(「上海昇平」)，本集團與若干中國電影發行商建立業務關係，可於其有業務關聯之中國影院推出本集團之電影，有助本集團增加放映其電影之中國影院數目。

年結後，本集團與一名中國轉授受權人就於中國免費省級地面電視台播放本集團之電影訂立轉授發行權安排。根據該安排，本集團向該中國轉授受權人轉授其電影，以每週末於免費省級地面電視台之黃金時段節目「豐采亞洲影院」內播放。本集團於二零零四年首兩個月向該中國轉授受權人轉授9部電影之電視播映權。首部電影於二零零四年一月在中國21個免費省級地面電視台首播。根據該中國轉授受權人所進行之研究，本集團之電影廣受中國觀眾歡迎，觀眾數目逐步上升。

憑藉內容豐富之影片庫，本集團將積極為其電影於中國開拓新發行媒體，如其他電視網絡以及飛機、輪船及巴士等運輸工具上之媒體，以為本集團電影增設額外收益來源。

### 銷售廣告權

本年度銷售廣告權之營業額下跌55%至5,268,000港元(二零零二年：11,600,000港元)。於回顧年度內，本集團出售13部電影之廣告權，而二零零二年則出售29部電影之廣告權。有關下跌主要由於中國廣告代理商於嚴重急性呼吸道綜合症爆發期間延後刊登廣告計劃所致。

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According to a recent industry research conducted by CTR and adamGo, the advertising spending on television and print media in the PRC amounted to approximately HK\$145.6 billion in 2003, representing an increase of 39% as compared to 2002. With the World Trade Organization ("WTO") reforms, Beijing's successful bid for the 2008 Olympic Games and the implementation of Closer Economic Partnership Arrangement ("CEPA") trade pact, the research forecasts the advertising spending will have a double-digit growth in 2004 as compared to 2003. To capitalise on the strong growth on advertising spending in the PRC, the Group is currently carrying out a study to further develop the sale of advertising rights business by providing a "cross-media advertising service" to advertising agencies and/or corporate clients. Such service will involve the placement of advertisements in the Group's various existing and future distribution media, such as video products, cinemas, television stations, transportation and hotels etc.

The directors believe that the plan for expanding the sale of advertising rights business will complement our existing film distribution business and generate additional revenue to the Group. As the expansion plan is still in a feasibility study stage, the "cross-media advertising service" is not expected to launch until the second half of 2004.

### FINANCIAL REVIEW

#### Liquidity and financial resources

The Group's financial position remains strong. Shareholders' equity increased to HK\$337,655,000 at 31st December, 2003 from HK\$220,104,000 in 2002.

During the year ended 31st December, 2003, the Group funded its operations mainly from cash generated from operations. At 31st December, 2003, the Group's material sources of unutilised liquidity are bank balances and cash amounting to HK\$80,722,000, which were denominated in Hong Kong dollars.

At 31st December, 2003, the current ratio was 2.1 (2002: 0.61). The improvement on the current ratio was mainly attributed to the increases in bank balances and cash and trade receivables. The Group expresses its gearing ratio as a percentage of total borrowings over total shareholders' equity. At 31st December, 2003, the Group's gearing ratio was 0.1 (2002: 0.15).

根據CTR與adamGo最近進行之行業研究，二零零三年之中國電視及印刷媒體廣告支出約達1,456億港元，較二零零二年增加39%。隨著中國加入世界貿易組織（「世貿」）、北京成功申辦二零零八年奧運會及落實更緊密經貿關係安排（「CEPA」）貿易協議，該項研究預測二零零四年之廣告支出將較二零零三年錄得雙位數增長。本集團現正就透過向廣告代理商及／或企業客戶提供「跨媒體廣告服務」以進一步發展銷售廣告權業務而進行研究，以把握中國廣告支出之強勁增長。有關服務將涉及於影視產品、影院、電視台、運輸及酒店等多個本集團現有及日後發行媒體刊登廣告。

董事相信，擴展銷售廣告權業務之計劃將與現有之發行電影業務互相配合，並為本集團帶來額外收益。由於擴展計劃尚處於可行性研究階段，預期「跨媒體廣告服務」最快會於二零零四年下半年推出。

#### 財務回顧

#### 流動資金及財務資源

本集團之財政狀況保持穩健。於二零零三年十二月三十一日，股東資金由二零零二年之220,104,000港元增加至337,655,000港元。

於截至二零零三年十二月三十一日止年度內，本集團主要以經營所得現金應付其營運所需。於二零零三年十二月三十一日，本集團之主要未動用流動資金來源為以港元為單位之銀行結存及現金80,722,000港元。

於二零零三年十二月三十一日，流動比率為2.1（二零零二年：0.61）。流動比率有所改善，主要由於銀行結存及現金及貿易應收款項增加所致。負債比率乃以借貸總額除以股東資金總額計算。於二零零三年十二月三十一日，本集團之負債比率為0.1（二零零二年：0.15）。

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### Borrowings

At 31st December, 2003, the Group's total borrowings were HK\$33,831,000 of which HK\$33,800,000 representing a convertible notes payable to First-Up Investments Limited, a wholly-owned subsidiary of China Star Entertainment Limited, which was unsecured, interest bearing at 1% per annum and maturing on 19th April, 2005 and HK\$31,000 representing obligations under a finance lease which was secured, interest bearing and maturing on 5th April, 2005.

The convertible notes carry the right to convert the whole or any part of the outstanding principal amount of the 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 may be transferred in whole or in part of the outstanding principal amount by the holder of the notes. Prior to the maturity, neither the holder of the notes nor the Company has the right to redeem or request for redemption of the notes.

### Treasury policies

The Group adopts a conservative set of treasury policies to ensure no unnecessary risks are taken by the Group's assets. No investment other than cash and short-term bank deposit are currently permitted.

### Foreign exchange exposure

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

### Signed distribution agreements

At 31st December, 2003, the Group had approximately HK\$66,700,000 worth of signed distribution agreements in its order books. Delivery of these distribution agreements is expected to be completed in 7 months.

### 借貸

於二零零三年十二月三十一日，本集團之借貸總額為33,831,000港元，其中33,800,000港元為應付予China Star Entertainment Limited (中國星集團有限公司)之全資附屬公司First-Up Investments Limited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31,000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，並可由票據持有人轉讓全部或部份未贖回本金額。到期前，票據持有人及本公司均無權贖回或要求贖回票據。

### 財政政策

本集團採納一系列保守財政政策，以確保本集團資產不會承受不必要風險。除現金及短期銀行存款外，現時不得作出其他投資。

### 外匯風險

由於本集團大部份交易、資產及負債均以港元為單位，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。

### 簽訂發行協議

於二零零三年十二月三十一日，本集團之訂單賬冊內之已簽訂發行協議約值66,700,000港元。預期該等發行協議之交付將於7個月內完成。

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### Acquisitions and disposals of subsidiaries and associated companies

In January 2003, the Group acquired the entire issued share capital of Legend Rich for a consideration of HK\$26,000,000. In January 2003, Legend Rich entered into a sales and distribution agreement with Tianjin Xinghui, pursuant to which Tianjin Xinghui agreed to be responsible for the sale and distribution of the Group's video products in the PRC. The owners of Tianjin Xinghui have each given an undertaking to transfer their entire interests in the registered capital of Tianjin Xinghui to Legend Rich when the laws and regulations in the PRC allow.

In July 2003, the Group acquired the entire issued share capital of World East for a consideration of HK\$15,000,000. In July 2003, World East entered into an agency agreement with Shanghai Shengping, pursuant to which Shanghai Shengping agreed to provide sales and business consulting services to the Group in the PRC. The owners of the Shanghai Shengping have each given an undertaking to transfer their entire interests in the registered capital of Shanghai Shengping to World East when the laws and regulations in the PRC allow.

Save as disclosed above, the Group made no acquisitions or disposals of subsidiaries and associated companies during the year ended 31st December, 2003.

### Charges on assets

During the year ended 31st December, 2003, the Group had not created any charge on its assets.

### Contingent liabilities

At 31st December, 2003, the Group had no material contingent liabilities.

### 收購及出售附屬公司及聯營公司

於二零零三年一月，本集團以代價26,000,000港元收購Legend Rich之全部已發行股本。於二零零三年一月，Legend Rich與天津星匯訂立銷售及發行協議，據此，天津星匯同意負責於中國銷售及發行本集團之影視產品。天津星匯之擁有人已各自承諾在中國法例及規例許可下轉讓其於天津星匯註冊資本之全部權益予Legend Rich。

於二零零三年七月，本集團以代價15,000,000港元收購World East之全部已發行股本。於二零零三年七月，World East與上海昇平訂立代理商協議，據此，上海昇平同意於中國向本集團提供銷售及業務顧問服務。上海昇平之擁有人亦已各自承諾在中國法例及規例許可下轉讓其於上海昇平註冊資本之全部權益予World East。

除上文所披露者外，於截至二零零三年十二月三十一日止年度內，本集團概無收購或出售附屬公司及聯營公司。

### 資產質押

於截至二零零三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。

### 或然負債

於二零零三年十二月三十一日，本集團並無重大或然負債。

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### Proposed secondary listing of shares

On 9th January, 2004, the lead manager, Ernst & Young Corporate Finance Pte Limited, had made an application on behalf of the Company to the Singapore Exchange Securities Trading Limited (the "Singapore Exchange") for a proposed secondary listing of and a quotation for the Company's shares on the Singapore Exchange. The application is being processed by the Singapore Exchange.

The directors believe that the proposed secondary listing of the Company's shares on the Singapore Exchange will enhance the Group's profile in South East Asia, facilitate investments by investors in South East Asia and enable the Company to gain access to Singapore's capital markets.

### HUMAN RESOURCES

At 31st December, 2003, the Group employed 26 staff (2002: 15 staff). Total staff costs (including directors' remuneration) amounted to HK\$5,592,000 for the year ended 31st December, 2003 (2002: HK\$6,550,000). 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 72 people (2002: Nil) who work for Tianjin Xinghui and Shanghai Shengping pursuant to the Group's sub-distributor or agency arrangements (as the case may be) with them. Total staff costs for Tianjin Xinghui and Shanghai Shengping amounted to HK\$2,870,000 for the year ended 31st December, 2003 (2002: Nil).

### 建議股份作第二上市

於二零零四年一月九日，牽頭經辦人安永財務諮詢私人有限公司 (Ernst & Young Corporate Finance Pte Ltd) 已代表本公司向新加坡交易所 (Singapore Exchange Securities Trading Limited) 申請建議本公司股份在新加坡交易所作第二上市及報價。新加坡交易所正在處理該申請。

董事相信，建議本公司股份在新加坡交易所作第二上市將提高本集團於東南亞之形象，促使東南亞投資者投資，並致使本公司打入新加坡資本市場。

### 人力資源

於二零零三年十二月三十一日，本集團僱用 26 名員工 (二零零二年：15 名員工)。截至二零零三年十二月三十一日止年度之總員工成本 (包括董事酬金) 為 5,592,000 港元 (二零零二年：6,550,000 港元)。僱員乃按其表現及工作經驗獲得酬金。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星匯及上海昇平訂立之轉授發行商或代理商安排 (視乎情況而定) 承擔彼等 72 名員工 (二零零二年：無) 之員工成本。截至二零零三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 2,870,000 港元 (二零零二年：無)。

## Chairman's Statement | 主席報告

### PROSPECTS

During 2003, the PRC domestic economy continued to grow with over 7% annual national GDP growth. With the WTO reforms and the continuous improvement of the living standards in the PRC, the directors believe that the demand for entertainment products is strong. The directors expect copyright protection in the PRC to improve and the PRC market to be liberalised.

Prior to 1st January, 2004, only licensed PRC companies are allowed to produce and/or distribute films under the PRC laws. The CEPA pact opens up the PRC film industry for Hong Kong companies by permitting Hong Kong companies to establish joint ventures with majority shareholdings to engage in the distribution of videos and sound recording products (including motion picture products) as well as to construct, renovate and operate cinema theatres in the PRC. Under CEPA pact, Chinese-language films made by Hong Kong companies are exempt from the quota of 20 foreign films a year. Films jointly produced by Hong Kong and the PRC are treated as "made in China". It is expected that Hong Kong's role as a gateway to the PRC market will boost film production in the coming year. The directors believe that the CEPA pact provides the Group opportunities to offer PRC audience a richer and wider choice of films in various media and greater flexibility to distribute the Group's films in the PRC.

To capitalise on the opportunities offered by the rapid growth in the PRC entertainment industry resulted from the continuous economic growth and relaxation of regulations on the import films and audio-visual products, the Group will implement the following strategies:

#### a. Expanding the Group's film library

The Group will further expand its film library by acquiring distribution rights to a different variety of films in order to offer the PRC audience a wider selection of films.

### 前景

於二零零三年，中國內地經濟持續增長，全年國內生產總值增長率超過7%。隨著世貿所帶來之改革，以及中國之生活水平持續改善，董事相信對娛樂產品之需求殷切。董事預期，中國之版權保障將有所改善，而中國市場將更趨開放。

二零零四年一月一日前，根據中國法例，僅特許中國公司獲准生產及／或發行電影。CEPA協議為香港公司打開中國電影業，批准香港公司成立持大部份股權之合營企業，以於中國從事發行影視及錄音產品（包括電影產品）以及興建、翻新及經營影院業務。根據CEPA協議，香港公司製作之華語電影可獲豁免一年20部外國電影之限額。香港及中國共同製作之電影被視為「中國製作」。預期香港作為中國市場門戶之角色將推動更多電影製作。董事相信，CEPA協議為本集團帶來機會並提供中國觀眾更豐富更廣泛之不同媒體電影選擇，並使本集團於中國發行電影時更加靈活。

本集團將實施以下策略，以把握中國娛樂業因經濟持續增長及進口電影及影音產品之規例放寬而迅速增長所帶來之商機：

#### a. 擴充本集團之影片庫

本集團將透過收購多類電影之發行權進一步擴充其影片庫，以向中國觀眾提供更豐富之電影選擇。



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### b. Expanding the Group's distribution network

The Group will further expand its distribution network in the PRC to include more sub-distributors and sub-licensees for its video products and 35-mm films for theatrical release as well as other media.

### c. Diversifying the Group's distribution media

The Group will explore other distribution media, such as other television networks and transportation, for its films in order to offer entertainment to a wider range of audience through different media.

The Group will concentrate on building on its expertise in films distribution. While maintaining its focus on distribution, the Group will be actively seeking diversification opportunities that are strategically important to the development of its core business and which complement to the Group's current business.

By order of the Board  
**Heung Wah Keung**  
 Chairman

Hong Kong, 23rd March, 2004

### b. 拓展本集團之發行網絡

本集團將進一步拓展其作影院放映及其他媒體用途之影視產品及35毫米電影之中國發行網絡，以覆蓋更多轉授發行商及轉授受權人。

### c. 擴展本集團之發行媒體

本集團將為其電影開拓其他電視網絡及運輸工具上之媒體等其他發行媒體，以透過不同媒體向廣大觀眾提供娛樂。

本集團將致力發揮其發行電影之專業知識。在專注發行業務同時，本集團將積極發掘策略上對發展其核心業務屬重要及配合本集團現有業務之擴展機會。

承董事會命  
 主席  
 向華強

香港，二零零四年三月二十三日