MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The Group reported losses of HK$22.6 million for the period, better than last year by HK$1.9 million. The improvement was mainly attributable to the reduction of operating expenses of HK$9 million and contributions from overseas associates of HK$6.4 million. On the other hand due to poor market conditions in Hong Kong, the exhibition income dropped by HK$12 million.

As stated in last year's annual report, the Group decided to consolidate its activities in the core business of distribution, supported by the exhibition and production divisions. Stringent cost control measurements were also put in place to cope with the poor economic conditions. We also put more resources in film financing activities and successfully obtained an increased supply of external films to support our cinema circuit. This has proven to be the correct strategy as the result was impressive.

Hong Kong market

Due to the lack of blockbusters in both the Chinese language and non-Chinese language films during the last summer holidays, the total box-office dropped from HK$563 million to HK$430 million or 24% in the same period under review. The non-Chinese language films accounted for HK$95 million or 72% of the shortfall. During the period only 4 major Hollywood films (namely: Harry Potter and The Chamber of Secrets, Minority Report, Men In Black II and Stuart Little 2) were released with a total box-office of HK$84.6 million. Whereas last year 8 films were released including Harry Potter & The Sorcerer's Stone, Jurassic Park 3, Lara Croft: Tomb Raider, Artificial Intelligence etc. which grossed HK$144.4 million at the box-office.

The Group distributed 12 Chinese language and 11 non-Chinese language films as compared to 13 Chinese language and 23 non-Chinese language films last year. As a distributor, the box-office takings of our Chinese language films outperformed our competitors and our market share increased to 48%. Amongst the 7 major Chinese language films with a box-office of over HK$10 million, the Group distributed 3 of them (namely: The Touch, Infernal Affairs and Golden Chicken). However, on the non-Chinese language films side, our performance was disappointing as the market share dropped from 26% to 9%.

The total admission of 1.2 million to the Group's cinemas dropped from 1.5 million or 20% against the same period last year. The box-office and gross profit were down by HK$24 million and HK$16 million respectively. This was partly due to the lack of blockbusters during the summer holidays and partly due to the "50% price-cut" campaign for September and October. As a result of the campaign, there was only a marginal increase in attendance.

Regional markets

Performance of the Group's associates in Singapore's and Malaysia's exhibition business showed continuous improvement. A record high profit of HK$6.4 million was achieved versus a loss of HK$4.8 million from the same period.

In Singapore, the overall box-office increased to S$52 million, up 9% as compared to last year. The success of our marketing campaign helped push our market share to 42.4%. Both box-office and admissions were increased by 15%. While the average ticket price remained at the same level, the average spending on concession sales increased by 18%. In November, we opened the first commercial IMAX screen with overwhelming response. The average ticket price of this cinema is 15% higher than the normal rate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Review of operations (continued)

In Malaysia, the overall box-office increased to RM$55.3 million, up 25% as compared to last year. Admissions to our cinemas increased by 1 million or 16%. Malaysia's entertainment tax was reduced from an average of 31% to 25% in October 2001. This benefited our business in two ways. On one hand, it reduced the gross ticket price paid by the customers which pulled in more audiences. On the other hand, the net ticket price to the cinema operators also increased. Revenue increased and the overheads remained flat for the same period due to tight cost control.

The Group will continue its tight control policy on headcount and operating expenses. There were no unusual or material changes to the Group's operations apart from those discussed above. There was no material acquisitions and disposals of subsidiaries and associates in the course of the interim period.

Prospects

The Group's decision to concentrate on its core business of film distribution supported by its film exhibition and production divisions has proven to be timely and correct. This has enabled the management to focus on what they do best and maintain a lean but strong organisation. We will further expand in the film financing business because of its attractive financial returns and the ability to strengthen our market position as the leading film distributor.

Hong Kong will continue to be the headquarters for the Group although we will continue look for opportunities to develop the China market. We will work actively and closely with the Hong Kong and the Mainland Chinese authorities to facilitate the gradual opening of the Pearl River Delta region.

We anticipate that the Hong Kong economic environment remains tough. The film industry will need to go through further consolidation. However, we believe that with our experienced management team, lean organisation and strong branding position, we will continue to improve the financial results and increase our market share of existing and new markets.

Liquidity and financial resources

During the period, the Group was principally financed by cash flow generated internally. There are no bank borrowings and charges on the Group's assets. As at 31 December 2002, the net current assets amounted to HK$53.5 million, including cash and deposits totalling HK$37.3 million. The gearing ratio, which was computed by dividing the total liabilities by the total assets, increased from 21% to 24%.

As at 31 December 2002, the Group had a contingent liability of HK$49.4 million (30 June 2002: HK$48.5 million) in respect of a guarantee of banking facilities granted to its associates.

The Group's assets and liabilities are principally denominated in Hong Kong dollars except investments in associates located in Singapore and Malaysia. In view that the Malaysian Ringgit is pegged to the United States dollars and the exchange rate between Singapore dollars and Hong Kong dollars has been relatively stable for the past two years, the directors were of the view that the Group's exposure to currency exchange risk was minimal. There was no hedging of foreign currencies carried out in the Group accordingly.

Employees and remuneration policies

As at 31 December 2002, the Group had 235 (30 June 2002: 244) employees. The Group remunerates its employees largely based on industry practice. Apart from salaries, commissions, mandatory provident fund and discretionary bonuses, options are granted to certain employees based on individual merits.