

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Highlights

	Unaudited		
	six months ended		
	30th September		
	2000	1999	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Turnover	<b>109,422</b>	90,659	+20.7%
Operating Profit/(Loss)	<b>18,323</b>	(996)	+HK\$19.3 M
Profit/(Loss) Attributable to Shareholders	<b>3,373</b>	(2,819)	+HK\$6.2 M
Basic Earnings/(Loss) per Share	<b>1.31 cents</b>	(1.59) cents	+2.90cents

## Overview of the Group

Comparing with last period, total turnover has increased by 20.7% whereas turnover for film and program distribution in audio visual format has increased noticeably by 26.5% which was mainly attributed to the devoting efforts by the Hong Kong Government in fighting against piracy and also the result of Group's active additions of popular titles in our prolific film library with films and programs of blockbusters, TV series of Chinese famous readings, collections of well-known Japanese directors, documentary series of introducing Chinese custom and medicated meals, nature, animal and the famous Chinese historical person epic TV series.

While the turnover for film exhibition and film rights sub-licensing has slightly decreased by 2.6% in the period under review, income from provision of information technology and related services, website design and management services demonstrated a strong growth of 148% comparing with last period. This is the desirable result enjoyed by the Group since its wholly owned subsidiary — Mei Ah Webcast International Corporation Limited, holding a Public Non-Exclusive Telecommunications Service (PNets) License from March 1996 onwards, providing network technology supportive services as well as technological consultancy to reputable local and overseas customers, has further accredited the ISO 9001 Certificate in May 2000 in recognition of its quality of services and standing in the industry.

Apart from the above, a net gain on dilution of interest in China 10K.com, an associated company which is engaged in the provision of internet content and e-commerce business, amounting to HK\$6,563,000, was recognised in the consolidated profit and loss account in the period under review, This gain on dilution arose upon the capital contributions to China 10K.com at premium by two independent investors which contributed a total consideration of cash of approximately HK\$24,500,000 and 20,330,000 shares of New World Cyberbase Limited, one of the independent investors of which shares are listed on the Hong Kong Stock Exchange.

With the Group's continuing efforts of effective cost control and improvement in turnover, the Group has turned last period operating loss of HK\$996,000 into current period operating profit of HK\$18,323,000 and Profit Attributable to Shareholders of HK\$3,373,000 after sharing of losses of associated companies (1999: Loss attributable to shareholders of HK\$2,819,000).

### **Prospects**

The Group has long been a mainstay of the home entertainment industry, looked to by millions of Chinese for the films and tele-features we produce and distribute. We have been extraordinarily successful in our ventures, and can boast a film library of popular titles that is the most prolific of any in Hong Kong.

The Group's transformation and extension of business segment to the provision of information technology supportive services and technological consultancy services denoted the Group's widen sources of the income. Our major sharing of loss in an associated company — an Internet Content Provider ("ICP") during the period has affected our result for the Profit attributable to Shareholders, nonetheless, the associated company has underwent a re-organization keeping its daily operating cost to the optimal and meanwhile actively seeking business pursuits to be an omni media in providing eductainment materials to various institutes in widening the business scope.

Year 2001 will be a new milestone for the Group when all our offices, warehouses and production facilities are moved into the "Mei Ah Group Centre" in Tseung Kwan O in the first half of 2001. Furthermore, we expect greater cost saving and efficiency when all facilities, offices and management are located under one roof and in turn improved profit margin.

Looking forward with the improvement of spending sentiment of consumer, the strong economic growth of Hong Kong in the last few quarters and the favorable factors that will be brought by China upon entering the World Trade Organization, the Group is optimistic about the future growth and the results in the coming year.

## **Liquidity and Financial Resources**

The Group has banking facilities amounting to HK\$61,790,000 (31st March 2000: HK\$61,790,000) of which 65.5% (31st March 2000: 64.3%) has been utilized as at 30th September 2000 to finance its normal trading operations.

At 30th September 2000, the trade receivables amounting to HK\$30.7 million, represented a 76.4% increase as compared to the balance at 31st March 2000 due mainly to the seasonality of sales, whereas inventories decreased by 11% as compared to the balance at 31st March 2000 were primarily due to the Summer clearance sale and the Group's healthy stock control procedures.

At 30th September 2000, total secured long-term bank borrowings of the Group which are denominated in HK Dollars amounted to HK\$24.9 million (at 31st March 2000: HK\$24.6 million), out of which, HK\$16 million are repayable within one year, HK\$6.3 million in the second to the fifth years and the remainder after the fifth year following the period under review.

The Group's gearing ratio at the period end was 0.065 (at 31st March 2000: 0.065) which was calculated based on the total long-term bank loans of HK\$24.9 million (at 31st March 2000: HK\$24.6 million) and shareholders' funds of HK\$381.5 million (at 31st March 2000: HK\$378.1 million).

## **Financial Risk Management**

In the normal course of business, the Group has no significant exposure to foreign exchange fluctuations as the Group's borrowings, turnover and purchases streams are primarily denominated in Hong Kong dollars.

Payment terms with customers are largely on credit. In order to minimize the credit risks associated with the trade receivables, credit evaluations of debtors are performed periodically and in some instances, where appropriate, corporate or personal guarantee is obtained. The bad debt has been insignificant.

## **Material Investment of the Group**

During the six months ended 30th September 2000, the Group invested HK\$35.5 million in fixed assets. The expenditure in the period was mainly spent in the construction of the Group's headquarter and factory in Tseung Kwan O, namely the Mei Ah Group Centre. The Group's projected expenditure for the remainder of the year is about HK\$30 million, which is mainly for the final completion of the superstructure of the Mei Ah Group Centre and the fitting out works. This will be financed partly by internal resources and partly by long-term bank borrowings at Hong Kong prime rate that the Group had recently arranged with the bankers.

## **Changes in the Composition of the Enterprise during the Interim Period**

As mentioned in the section "Overview of the Group" above, the Group's equity interest in China10K.com was diluted from 45% as at 31st March 2000 to 41% as at 30th September 2000. A net gain on dilution of interest in China 10K.com amounting to HK\$6,563,000, was recognised in the consolidated profit and loss account in the period under review. This gain on dilution arose upon the capital contributions to China 10K.com at premium by two independent investors which contributed a total consideration of cash of approximately HK\$24,500,000 and 20,330,000 shares of New World Cyberbase Limited, one of the independent investors of which shares are listed on the Hong Kong Stock Exchange.

## **Number and Remuneration of Employees**

Including the directors of the Group, as at 30th September 2000, the Group employed a total of 99 (30th September 1999: 75) full-time employees. Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to the basic salaries, the Group also provides staff benefits including discretionary bonus, medical insurance scheme and contributory provident fund.

## **Details of the Charges on Group Assets**

Banking facilities granted by banks to the Group are secured by the following:

- (a) legal charges over certain properties and plant and machinery held by the Group with an aggregate carrying value of HK\$32,033,000 (31st March 2000: HK\$32,167,000) and HK\$16,280,000 (31st March 2000: HK\$19,252,000).
- (b) charges over bank balances of the Group amounted to HK\$ nil (31st March 2000: HK\$14,000,000); and
- (c) corporate guarantees executed by the Company.