

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review and prospect**

The Company has successfully gone for listing and commenced trading of its shares on The Stock Exchange of Hong Kong Limited on 12th September, 2001. Prior to listing, the Group's unaudited consolidated turnover and profit for the six months ended 30th June, 2001 were approximately HK\$48.1 million and HK\$12.0 million respectively, compared with HK\$37.4 million and HK\$4.1 million last period.

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2001.

For the six months ended 30th June 2001, the turnover from the Group's film licensing and distribution and film processing business represents 42% and 34% of the Group's total turnover respectively. The Group's film distribution and licensing income, film processing and advertising & promotional business has contributed to 67%, 7% and 12% of the Group's profit from operations respectively.

The strong performance in the film licensing and distribution income compared to the corresponding period in 2000 was mainly attributed to the licensing income generated from the films in the film library which has an insignificant further cost incurred for the licensing. The film processing operation has demonstrated a steady revenue and profit contribution to the Group. The advertising and promotion services business which only commenced in October 2000 has contributed to the Group's profitability. The management believes that the contribution from this operation will steadily increase to a higher level.

Looking forward, with the Group's solid experience and knowledge in the film industry, both in Hong Kong and People's Republic of China (the "PRC") market, we are in an advantageous position to capitalize on business potentials in the populous market and opportunities arising from the recovery of film industry and PRC's accession to the World Trade Organization.

### **Liquidity and financial resources**

As at 30th June, 2001, the Group retained total cash and bank balances of HK\$2.7 million, most of which were in Hong Kong dollars — the exposure to foreign exchange fluctuation has been minimal. On the same date, the Group had bank borrowing of HK\$10.4 million, including trade lines and short term loans, of which were in Hong Kong dollars. Interest rates on these bank borrowings were at prevailing bank lending rates.

As at the financial period ended date, the Group had bank borrowings of HK\$4.5 million which were repayable within one year. On the same date, the current ratio and the gearing ratio (expressed as total bank borrowings to shareholders' fund) of the Group were 2.5 and 0.2 respectively.

The directors are in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

### **Employee and remuneration policies**

As at 30th June, 2001, the Group employed 78 staff members, including approximately 52 staff in the processing and development department.

Apart from basic salaries, discretionary bonus and contribution to the mandatory provident fund for staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.