
MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The year 2001 is the year of the Group listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), The listing date just followed the event of the tragic terrorist attacks on September 11 ("9/11"). The impact of 9/11 not only affect the performance of the share price of the Group on the listing date but also have a significant impact to the US and World economy.

In the year under review, the Group recorded a turnover of HK\$129.7 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 58%, 24% and 18% respectively of the Group's turnover. The increase in turnover compared with the prior year is mainly due to increase in business from film licensing and advertising.

The Group reported a net profit of HK\$41.1 million which is in line with our profit forecast in the prospectus dated 30th August, 2001 and 59% increase from the prior year. Basic earnings per share is 16.52 HK cents, calculated on 249,041,095 shares in issue in 2001 compared with 11.54 HK cents of the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2001, the Group's gross assets stood at HK\$144.8 million. The net tangible assets of the Group is HK\$127.9 million or 42.6 HK cents per share. The cash and cash equivalent is HK\$38.4 million.

BORROWINGS AND BANKING FACILITIES

As at 31st December, 2001, the Group had outstanding short-term bank borrowings of approximately HK\$1.2 million (mainly represented by current portion of property mortgage loan of approximately HK\$2.4 million). The main purpose of the bank loan is to finance the daily operation of the Group.

The aggregate banking facilities of the Group was approximately HK\$6 million. The utilization rate of banking facilities was about 40%. These banking facilities were secured by certain land and buildings of the Group, personal property, and personal guarantee given by certain directors of the Company and of the Group. The bankers of the Group agreed in principle that personal guarantee given by certain directors would be released upon listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The bank borrowings are made in Hong Kong Dollars.

As at 31st December, 2001, the gearing ratio of the Group, calculated at total debts divided by total assets, was 1.9%.

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NET CURRENT ASSETS AND WORKING CAPITAL

As at 31st December, 2001 the Group's total current assets and current liabilities were approximately HK\$136.2 million and HK\$15.8 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities in 2001, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

INVESTMENT

During the year, the Group acquired unlisted equity investment of a comic company.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December, 2001 was \$14.4 million representing an increase of 28%. The Group had a workforce of about 80 staff at the end of 2001. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors of the Company may, at their discretion, invite Executive Directors and full-time employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

FUTURE PLAN

Although the Group has remained focused on the business opportunities in the blooming economy of the PRC, the Group has taken a prudent step on its business development plans after assessing the impact of the 9/11. The adoption of a prudent and cautious stances will put the Group in a good position as it still has substantial cash resources available to capitalize on future investment opportunities.

The Directors intended to apply the net proceeds from the New Issue as advised in the prospectus dated 10th August, 2001:

As at the date of annual report:

- Approximately HK\$13 million for the future production issues in China.
- Approximately HK\$1 million for acquisition of new machinery and equipment for future processing business in Hong Kong.