

Management Discussion And Analysis

Business Review And Prospects

During the six months ended 30th June, 2003, the Group's unaudited turnover and loss attributable to shareholders was around HK\$11.7 million (2002: HK\$40.5 million) and HK\$54.2 million (2002: HK\$2.6 million), respectively.

The significant increase in net loss this period was mainly attributed by the decline in revenue by approximately 71% and the provision for impairment of assets for the anti-theft car alarm and tracking system of HK\$22 million.

Sale of life-like plants

The business volume of our core business was decreased significantly from last period's approximately HK\$36.7 million to the current period's HK\$10.9 million. Like many other companies in Hong Kong, the decrease in business volume was mainly hit by the Severe Acute Respiratory Syndrome epidemic, which resulted in the cancellation of certain appointments by our customers from the United States and we have to defer our production schedules correspondingly. Unlike other industries, the SARs was outbreak during the traditional seasons where our customers placed their annual orders for the Christmas products. Accordingly, the impact of the SARs to the Group's business and production schedule was material and orders may not be easily picked up in the second half of the year.

As the business volume decreased, the Group's production capacity cannot be fully utilised during the period under review and thus resulting in the record of a loss of HK\$19.4 million as compared to a profit of HK\$3.3 million in last period.

The tighten cash flow position also affected the performance of the Group's operation and production planning. Accordingly, the Directors were actively seeking opportunities to raise funds from the capital and debt markets. The Directors were pleased to report that new banking facilities and placement of new shares were successfully secured subsequent to the balance sheet date. The Directors are of confident that the Group's financial position and performance will be improved gradually.

The management has decided to place more resource in strengthening the Group's marketing team, with the aid of the e-commerce facilities that have been well established in prior years. The Group will take a more active and direct role in penetrating different market segments of the industry. Apart from the premium market segment, the Group will seriously considers the engagement in the middle to low end product segments where the business volume is much higher than that we engaged nowadays.

The Group will also participate in more trade shows and be actively contact with potential customers by offering each of them with a distinguish program. The management has confident to increase its market share in the industry in the coming years.

Multi-media business

Consistent with the revenue pattern over the past years, turnover for the first half of the year remains low, resulting in an operation loss of HK\$2.5 million (2002: HK\$1 million). Most of the distribution revenue will be realized in the second half of the year.

On the operation front, the management would like to report on the following key events.

- Due to a weak advertising market, resulting in reduced ad budget and longer collection time, 9:30 Theater turned in a result that is below expectation. The project is breaking even. The management believes it is still a strong business model and expect it to generate strong profit on the up turn of the ad market. In fact, management is still looking at expanding the 9:30 Theater concept into other provinces next years, provided that the terms offered by the TV station are favourable.
- The 36 episode period drama that we produced and distributed at the end of last year is being shown by many major TV stations in the PRC during the first half period. The drama series received very good review and ratings among the TV stations. Since the project was a success, it will benefit us in the distribution of self-produced TV dramas in the future.
- The shooting of a new 30 episode period drama began in May of this year and was completed in August. Currently, post-production work is in progress. After government censorship approval, distribution can commence by November of this year.
- At the end of last year and the beginning of this year, the company purchased the rights to 80 hours of imported dramas from both Hong Kong and Taiwan producers. To date, government approval has been granted for 1x20 episode series. Distribution effort is already in progress. Management expects the approval for the remaining 60 hours to be granted in the third and fourth quarter and distribution will commence immediately thereafter.

To sum up our core business, i.e. TV drama production, importation and distribution, is in good shape. We are guarding and nourishing the 9:30 Theater and are confident that it will deliver strong profit on the up swinging of the advertising market.

The return on investment on purchasing imported dramas and distributing them in China is lower than our own productions. Yet, the sales cycle is much shorter and the pressure on cash flow is lower. Besides, with our commitment on 9:30 Theater, it gives us an edge on programming, thus strengthening our ad revenue stream.

Since collection of aged receivables continue to create a problem for us, our cash flow continue to be tight. We are controlling our expenses very tightly and are very cautious and conservative in making any investments in new project or producing new TV dramas this year.

We will remain focused on our core business and despite high finance cost, we are still confident of maintaining a solid business with a reasonable return.

Anti-theft car alarm and tracking system

The performance of the operation in the anti-theft car alarm and tracking system was still poor during the period under review. Since positive cash inflow was not expected to be generated by the project in the near future, the Directors became more conservative in further financing its operation. The management of the project was also required to secure its own funding from the market to support its operation.

In view of the extreme poor performance of the project which was out of the original schedule and expectation, a full provision for impairment on the set up cost of the system had been made in the current period, resulting in the record of a loss of HK\$25 million (2002: HK\$4 million) for this division.

Liquidity And Financial Resources

The Group generally finances its short term funding requirements with cash generated from operation, credit facilities from suppliers and banking facilities provided by its principal bankers.

The Group had committed bank and other financing facilities of HK\$38.5 million as at 30th June, 2003, of which, HK\$37 million has been utilized. Certain land and buildings and plant and machinery and motor vehicle with net book value of approximately HK\$65.7 million and HK\$7.2 million respectively were pledged to secure the mentioned facilities. The Group had a total long term borrowing of approximately HK\$3.2 million and shareholders equity of approximately HK\$53.6 million as at 30th June, 2003. The gearing ratio, calculated based on total liabilities and shareholders' equity was 160% (31st December, 2002: 67%).

Total current assets of the Group amounted to approximately HK\$55.6 million, with cash and bank balance of approximately HK\$2.8 million, inventories and television programmes and sub-licensing rights of approximately HK\$27 million, trade and other receivables, prepayments and deposits of approximately HK\$25.8 million while net current liabilities was HK\$82.4 million. The current ratio was 0.67 (31st December, 2002: 0.88) and the quick ratio was 0.35 (31st December, 2002: 0.60).