

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend to shareholders of the Company for the six months ended 30th September, 2002. (2001: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's unaudited consolidated loss attributable to shareholders for the six months ended 30th September, 2002 amounted to approximately HK\$77 million (2001: HK\$227 million), reduced significantly by 66%. The basic loss per ordinary share was HK\$0.03 (2001: HK\$0.18), a reduction of 83%.

The Group's loss comprised (i) net loss of approximately HK\$1 million in movies, television dramas and documentary production, distribution and licensing (2001: HK\$22 million); (ii) net gain of approximately HK\$4 million in theme restaurant operation and franchising (2001: HK\$74 million loss); (iii) net loss of approximately HK\$11 million in property investment (2001: HK\$35 million); (iv) net loss of approximately HK\$7 million in investment in securities (2001: HK\$52 million); and (v) net loss of approximately HK\$62 million in other operations and corporate business (2001: HK\$44 million).

Operating results in major segments will be reviewed in the subsequent paragraphs headed "Business Review" below.

The net loss in property investment was mainly due to deficit arising on revaluation of investment properties of approximately HK\$2 million and allowance for properties held for resale of approximately HK\$10 million respectively as a result of the continuing downturn in the property market. The net loss in investment in securities included an impairment loss recognised in respect of convertible bonds issued by G-Prop (Holdings) Limited of approximately HK\$22 million. The net loss in other operations and corporate business was mainly due to (i) allowances made for loans and interest receivables of approximately HK\$16 million; (ii) net loss in music production of approximately HK\$10 million incurred during the development stage of such business; and (iii) net losses contributed by Sing Pao Media Group of approximately HK\$9 million and M Channel of approximately HK\$11 million.

BUSINESS REVIEW

Content Production

In this reporting period, the Group's indirectly wholly owned subsidiary, BOB, was able to turn around its numbers to positive. An operating gain of approximately HK\$2 million was recorded for the six months ended 30th September, 2002 (2001: HK\$21 million loss). This improvement is mainly due to BOB's strategic positioning of engaging in more movie commissioning projects instead of taking risk in direct investment. In parallel, BOB trimmed down its operating cost to a sustaining level. Both measures were effective in bringing the business to breakeven. In 2002, BOB has focused on co-production of television drama series and telefeatures for both regional and the PRC markets instead of local movies. The Group believes this is an effective business strategy during the current economical downturn.

The Group's associated company, Applause Pictures, contributed a net gain of approximately HK\$0.3 million to the Group (2001: HK\$0.4 million loss). Applause Pictures has produced movies targeting at international markets by pooling regional resources together. Riding on its success in the widely acclaimed movie "Jan Dara" in 2001, Applause Pictures introduced two movies in the reporting period: (i) "The Eye", both a blockbuster and trend setting movie in 2002, which achieved significant box office in Hong Kong and Southeast Asia and won the "Best Leading Actress" and "Best Visual Effects" in "The 39th Golden Horse Award" in Taiwan; and (ii) "Three", a pioneer in Pan-Asian (including Hong Kong, Thailand and South Korea) movie development, which earned rave reviews throughout Asia with the Hong Kong part winning the "Best Leading Actor" and "Best Cinematography" in "The 39th Golden Horse Award" in Taiwan.

During this period, another associated company of the Group, Alfaway has syndicated its high quality programmes such as "Fun! Fun! Fun!" to over 100 television stations in the PRC for prime time broadcasting. The latest program added to the programme line up is a TV game show entitled "A Trial for Treasure", which has become the number one rated variety show of 2002 in Shanghai according to AC Nielsen.

Leisure Business

The Asian economy as well as consumption sentiment is yet to recover. Leisure business contributed an operating loss of approximately HK\$7 million (2001: HK\$47 million), while turnover dropped to approximately HK\$39 million (2001: HK\$51 million).

In this period, the Group continued to consolidate its current theme restaurant business and closed down some loss-making Planet Hollywood outlets. Tapping into its celebrity resources and riding on its established brand name, the Group has maintained a focus on franchising to extend its foothold in Asia. The Group believes leisure business development through franchising can generate long-term stable returns to the Group and balance the risk of direct invested outlets. In line with this strategy, the Group franchised two "Star East" theme restaurants which were opened in Shenzhen and Macau in May and June 2002 respectively.

Strategic Investment

M Channel Corporation Limited (formerly known as 36.com Holdings Limited)

After completion of the disposal of the Mobile Media Group to 36.com Holdings Limited in April 2002, the Group holds an effective interest of approximately 26.9% in M Channel. For the six months ended 30th September, 2002, M Channel contributed a net loss of approximately HK\$11 million to the Group.

Over the past year of operations, M Channel has expanded its client base to cover different business sectors, with multi-media telecasting systems installed in over 700 buses of New World First Bus, 1,000 public light buses and fixed locations such as over 120 Watson's The Chemist, 10 PARKnSHOP and 20 fast food chain stores.

M Channel's operations in the PRC market had been progressing smoothly during this period, with installation completed in over 2,100 buses in Beijing, Guangzhou and Harbin.

Other Businesses

Sing Pao Media Group Limited

Following a rights issue of Sing Pao Media in September 2002, the Group's effective interest in Sing Pao Media was diluted from 25.56% to 18.56% and the Group is no longer in a position to exercise significant influence over its management. Accordingly, the Group's investment in Sing Pao Media was reclassified as investment in securities.

During this period, Sing Pao Media contributed a net loss of approximately HK\$9 million (2001: HK\$24 million) to the Group.

Talent Management and Music Production

Development of the talent management and music production operations has been well on the path with more new artistes being introduced to the market through the release of their respective new lyrics, music albums, movies and quality TV commercials. The Group's new artistes EO2, E-kids and Sisi Cheung together won the "Most Popular Group Song" at TVB's 2002 Second Seasonal Awards. Following on this encouragement, the Group introduced its next newcomer, Tiffany Lee's first EP in August and will continue to introduce quality new albums to secure its market share.

OUTLOOK

To overcome the challenges ahead, the Group will continue to implement cost rationalization initiatives, maximize its business synergies, improve operating efficiencies and financial performance through streamlining unprofitable operations and non-core businesses, and focus on core business with profit prospects.

In line with the Group's objective of emerging as one of the leading content providers in Asia, the Group shall continue to offer premium Chinese content for the regional platforms in Asia through its various production arms. After a year of deferment in direct invested production projects, the Group plans to introduce new movies, telefeatures and TV dramas in the prospective period through its local production subsidiary, BOB. As for Applause Pictures, riding on the success of its recent movies, it will continue its efforts to produce quality, trend setting movies so as to strengthen its foothold in the regional market.

With the successful establishment of more franchised outlets in the PRC market and leveraging on its acclaimed brand name as a popular star-studded entertainment and dining place, the Group will maintain its strategy of franchising the theme restaurants to extend its franchise network in key cities in the PRC and tap into the immense growth opportunities.

Tremendous synergies shall be generated among the different operations and investments of the Group, which shall provide distinctive competitive edge to the Group. The Group believes that its strategic investment in media-related assets will also bring synergies to its music and entertainment businesses and content production business as well as fruitful returns in the future. By leveraging on the resources of the Group including artistes, communications tactics and production know-how, the Group will continue to offer versatile one-stop market communications service to a variety of commercial brands.

The Group is optimistic about the future potential of developing the Greater China market for its talent management and music production businesses. As they are growing progressively at the initial development stage, the Group will continue to recruit new talents to strengthen its artiste portfolio. The development of talent management and music production can also ride on the Group's diversified entertainment and media channels to establish a foothold in the market.

Being an increasingly diversified entertainment conglomerate, the Group looks forward confidently to the continuing growth opportunities of the PRC market in the years ahead subsequent to her entry into the WTO and the projected annual economic growth of over 7% in both 2002 and 2003. Moving towards its goal to become a fully integrated entertainment and media conglomerate in the Asia Pacific region, the Group will continue to exploit new partnership and alliance opportunities in the region in order to forge into the market lead.

FUND RAISING

Pursuant to a top-up placing arrangement and second placing arrangement completed in May and June 2002 respectively, the Company issued a total of 700,000,000 new ordinary shares of HK\$0.005 each at a price of HK\$0.08 per share and raised net proceeds of approximately HK\$54.5 million in total. These proceeds were used by the Group for repayment of borrowings and general working capital.

MATERIAL DISPOSAL

In June 2002, the Group disposed of its wholly-owned subsidiary, whose sole asset was a landed property located in Yuen Long, to Paul Y. - ITC Construction Holdings Limited for a total consideration of HK\$103 million. The disposal constituted a discloseable and connected transaction for the Company under the Listing Rules and was duly approved by independent shareholders of the Company.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING RATIO

To support the growth of its core business, the Group maintained sufficient liquid funds of approximately HK\$59 million, net of pledged bank deposits, comprising approximately HK\$15 million bank balances and cash and approximately HK\$44 million short-term marketable securities. Approximately 88% of these liquid funds were denominated in Hong Kong dollars with the remainder in foreign currency.

The Group's total borrowings amounted to approximately HK\$221 million, comprising bank borrowings of approximately HK\$136 million and other borrowings of approximately HK\$85 million. The interest-bearing borrowings of approximately HK\$219 million bear interest at prevailing market rates. The bank borrowings were mainly made in Hong Kong Dollars with approximately HK\$40 million denominated in Japanese Yen. The Japanese bank borrowings have been used to hedge a substantial part of the Group's foreign currency investment in Japan.

Following the redemption of the HK\$100 million convertible note and two placing arrangements made during this period, the Group's gearing ratio as at 30th September, 2002 was approximately 106% (31.3.2002: 180%), which is calculated on the basis of the Group's total interest bearing debts net of bank balances and cash, pledged bank deposits and short-term marketable securities over the total equity interest as at the reporting date.

There has not been any change in the Group's funding and treasury policies, and the Group continues to follow the practice of prudent cash management and, when necessary, will engage in currency hedging against exchange risks.

PLEDGE OF ASSETS

As at 30th September, 2002, certain of the Group's property interests with an aggregate net book value of approximately HK\$31 million (31.3.2002: HK\$136 million) and the Group's bank deposits of approximately HK\$42 million (31.3.2002: HK\$33 million) were pledged to banks to secure credit facilities for the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September, 2002, the Company and its subsidiaries had 352 employees (2001: 416). Employee remuneration, excluding directors' emoluments, for the six months ended 30th September, 2002 totalled approximately HK\$21 million (2001: HK\$32 million). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2002, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

(A) INTERESTS IN THE COMPANY

Name of director	Personal interests	Number of ordinary shares held as		
		Family interests	Corporate interests	Other interests
Tam Wing Lun, Alan	424,000	-	-	-
Tsang Chi Wai, Eric	394,000	-	-	-
Chan Pak Cheung, Natalis	394,000	-	-	-
Wong Yat Cheung	7,130,571	-	-	-
Chan Kong Sang, Jackie	394,000	-	-	-
Mui Yim Fong	26,000	-	-	-
Chan Chak Mo	270,000	-	-	-

DIRECTORS' INTERESTS IN SECURITIES

(B) INTERESTS IN ASSOCIATED CORPORATIONS

(i) *The Saint News Limited*

Mr. Wong Yat Cheung had, as at 30th September, 2002, a personal interest of 10 shares, representing 10% shareholding, in the issued share capital of The Saint News Limited, an indirect 51% owned subsidiary of the Company.

(ii) *Sing Pao Media Group Limited ("Sing Pao Media")*

Name of director	Personal interests	Number of ordinary shares held as		Other interests
		Family interests	Corporate interests	
Tam Wing Lun, Alan	-	-	4,357,500 ^(Note)	-
Tsang Chi Wai, Eric	-	-	4,357,500 ^(Note)	-
Chan Pak Cheung, Natalis	-	-	4,357,500 ^(Note)	-

Note: The number of shares held was reduced consequential upon the capital reorganisation of Sing Pao Media effective on 29th May, 2002. These shares were beneficially owned by Gold Miracles Limited, a company in which each of Mr. Tam Wing Lun, Alan, Mr. Tsang Chi Wai, Eric and Mr. Chan Pak Cheung, Natalis held one third of its issued share capital. Each of these directors was therefore deemed to be interested in 4,357,500 shares in Sing Pao Media.

Save as disclosed above, as at 30th September, 2002, none of the directors of the Company or their associates had any interests in any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.