INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend to shareholders of the Company for the six months ended 30 September 2004. (2003: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated turnover for the six months ended 30 September 2004 was approximately HK$66 million, representing an increase of approximately 65% against that of 2003 of approximately HK$40 million. The increase was mainly contributed by the increase in turnover in movies and documentary content production, distribution & licensing.

The Group's unaudited consolidated loss attributable to shareholders for the six months ended 30 September 2004 amounted to approximately HK$43 million (2003: HK$15 million), an increase by approximately 187%. The basic loss per ordinary share was HK$0.140 (2003: HK$0.089), which have been adjusted for the consolidation of the Company's ordinary shares in the subsequent paragraphs headed "Major Events Subsequent" below.

The Group's net loss comprised:

(i) net loss of approximately HK$8 million in movies, television dramas and documentary content production, distribution and licensing (2003: HK$4 million gain);

(ii) net loss of approximately HK$6 million in theme restaurant operation and franchising (2003: HK$8 million);

(iii) net gain of approximately HK$1 million in property investment (2003: HK$3 million loss);

(iv) net loss of approximately HK$14 million in investment in securities (2003: HK$13 million); and

(v) net loss of approximately HK$16 million in other operations and corporate business (2003: HK$5 million gain).

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

The net gain in property investment included mainly a surplus of approximately HK$3 million arising on revaluation of certain investment properties. The net loss in investment in securities included an unrealised loss of approximately HK$9 million on the Leadership Shares as set out in the subsequent paragraphs headed "Material Acquisition and Disposal" below.

BUSINESS REVIEW

The signing of the China – Hong Kong Closer Economic Partnership Arrangement (CEPA) has provided the Group with broader access to the lucrative mainland entertainment market. To capitalize on the emerging new opportunities, the management team has implemented strategic growth initiatives including the acquisition of new business platforms, repositioning of core businesses and realignment of primary market focus. These initiatives have provided the Group with new earning profiles, expanded market frontier and consolidated foundation. As the Group underwent the strategic transformation, it recorded a net loss of approximately HK$43 million (2003: HK$15 million).

Production, Distribution and Licensing of Content

Serious piracy problem, including illegal online file-sharing, continues to be a significant issue for the industry. As a result, the Group recorded an operating loss of approximately HK$5 million (2003: HK$142,000 gain) in this division.

In view of the challenging operating environment, the Group maintained a prudent slate of mixed genre films and telefilms. One of the biggest domestic hit for Anytime Pictures, "Jiang Hu", starring Mr. Andy Lau, Mr. Jackie Cheung, Mr. Shawn Yue and Mr. Edison Chan grossed satisfactory box office receipts and attracted various film awards' nominations. Pioneering the production of independent films, Anytime Pictures won the "Independent Spirit Award" at the Hong Kong Asian Film Festival 2004 with its new presentation "When Beckham Met Owen". Applause Pictures continued to spotlight excellence with distinctive filmmaking: "Dumplings Three...... Extremes" featuring Miss Miriam Yeung and Mr. Tony Leung Ka Fai enjoyed a favourable reception during its debut. Other co-produced films included the Japanese horror film, "Three...... Extremes", directed by Mr. Miike Takashi. As for documentary, Discover China has successfully licensed "Chinese Beauty Secrets" to Discovery Channel Asia.

China's filmed entertainment sector is poised for spectacular growth and the Group will pursue a desirable production volume to capitalize the growth. In seeking to limit investment risks, the Group will adopt a balanced risk-reward investment strategy.

Leisure Business

Leisure business recorded an operating loss of approximately HK$5 million (2003: HK$8 million), mainly attributable to the operation of theme restaurant in Japan. Loss was reduced by approximately 38% as compared to the corresponding period last year, which primarily resulted from cost rationalization and streamlined operation of Planet Hollywood Japan and Star East Shanghai. The Group continued to de-emphasize this business and is looking for sale opportunities.

Talent Management

Talent management, event marketing and music production substantially reduced operating losses to approximately HK$1 million (2003: HK$4 million) during the half yearly period. Amidst the gloomy outlook and keen competition of the music industry, the Group's music production division has ceased operation in October 2004.

As at 30 September 2004, the Group managed 20 artistes. Operating efficiencies were increased subsequent to an operational reorganization. The Group has also successfully obtained a CEPA certificate and is thus in a position to establish a wholly-owned advertising service company in China.

Investment in Cinemas

The Group completed its acquisition of a 25% interest in Stellar Cinema Development Company Limited ("Stellar Cinema") in August 2004. The newly built or renovated multiplexes it operates have 13 screens altogether, are primarily located in Shanghai and Chengdu and are members of the China Film Stellar Theatre Chain, the number 3 theatre chain in China. Operated under the uniform and recognised brand name "Stellar", the multiplexes offered modern amenities such as stadium seating, digital sound and concession counters. With excellence in cinema management, one of the multiplexes, Shanghai-Stellar (Zhengda) Cinema, is amongst the top 20 cinemas in China in terms of box office from time to time.

Further, Stellar Cinema has invested in a world-class multiplex cinema with 7 screens in Beijing, which is scheduled for gala opening soon. Stellar Cinema aims to stand at the forefront of China's multiplex replacement cycle. To achieve leading position in terms of asset quality and breadth of market coverage, Stellar Cinema continues to identify and invest on selective new multiplexes and redevelop obsolete cinemas in prime locations. Apart from strengthening its foothold in the major cities such as Beijing, Shanghai and Guangzhou, Stellar Cinema is also strategically increasing its market presence in the second tier cities. In view of the industry's promising growth momentum, the Group intends to put great emphasis on its investment in the theatrical exhibition business.

Investment in Cyber Cafés

In June 2004, the Group completed its acquisition of a 50% interest in Chengdu Stellar Digital Information Company Limited ("Stellar Digital"), a chain operator, franchiser and manager of cyber cafés in China. The recent tightening of regulation by the government on the issuance of new cyber café license has constrained the growth of cyber cafés in China. The cyber café chain currently has about 15 cyber cafés and manages about 370 contracted cyber cafés in Sichuan. Stellar Digital provides uniform branding, management mode and training services for the contracted cyber cafés. Capitalizing on the consumer traffic generated by its cyber café business and its expansive store base, Stellar's cyber café chain also distributes and markets major online game products effectively and efficiently.

In terms of future business development, Stellar Digital will continue to focus on growing its cyber café business nationwide with consistent focus on the second and third tier cities.

Investment in New Media

Tightening of regulation and sanctions imposed by the mobile operators of certain wireless value added services during the period under review has had an adverse impact on the Group's newly established joint venture's business performance. To diversify revenue, the Group has commenced content provision to wireless value-added service providers and broadband value-added service providers in China. With increasing demand for new media content in China, promising business growth is expected.

OUTLOOK

Continuous strong economic growth and further market liberalization of the media market in China presents encouraging outlook. Moving forward, the Group will continue to integrate and consolidate its newly acquired businesses. With an objective to attain sector leadership, primary focus will be put on expanding the scale of its theatrical exhibition investment. While pursuing its strategic plans, the Group will maintain stringent cost control measures. Furthermore, the Group will remain observant in the pursuit of new partnerships and alliances so as to enhance competitiveness. With the immense market potential in China coupled with the Group's strategic initiatives, the management looks forward confidently to a quantum leap in business growth in the coming year.

FUND RAISING

During the period under review, the Group raised new equity funding of approximately HK$19 million by means of a placing of 355 million new shares at a price of HK$0.055 per share to independent third parties.

Completed on 3 May 2004, the net proceeds from the placing have been used for the Group's investments in the media and entertainment related business.

MATERIAL ACQUISITION AND DISPOSAL

As stated above, acquisition of the 25% interest in Stellar Cinema and the 50% interest in Stellar Digital were completed during the period. Full details of these acquisitions are contained in the Company's announcement dated 20 February 2004 and the Company's circular dated 15 March 2004.

On 1 April 2004, the Company announced the disposal of its 18.36% interest in Leadership Publishing Group Limited (the "Leadership Shares") and its 26.91% interest in M Channel Corporation Limited together with the shareholders' loan advanced to it (the "M Channel Shares and Loan") for a total consideration of approximately HK$27.3 million. Strategic Media International Limited ("SMI"), the Company's substantial shareholder, was the purchaser and these disposals therefore constituted discloseable and connected transactions under the Listing Rules. The transactions are explained in the Company's circular dated 23 April 2004.

As at the date of this report, disposals of the Leadership Shares and M Channel Shares and Loan have not been completed. In the condensed consolidated financial statements above presented, an unrealised loss of approximately HK$9 million has been provided for because of the delay in completion.