



Management Discussion and Analysis

BUSINESS REVIEW

Content Production **BoB** applause|pictures

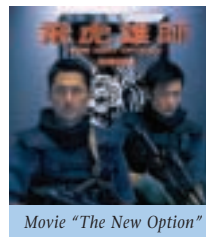


TV Drama
"The New Option"

In 2002, the Group produced premium Chinese entertainment content including movies and television content through various production arms. Against the adverse local economic environment, the Group has adopted a prudent strategy in direct investment of movie productions. One of its production arms, Bob successfully returned to an operating profit of approximately HK\$2 million when compared to an operating loss of approximately HK\$29 million in 2002 as a result of its strategic positioning in concentrating on movie and TV drama commissioning projects and implementation of stringent cost control measures. During the year, Bob produced only one direct invested movie and drama series project.

The Group's investment in the regional film production venture, Applause Pictures achieved outstanding recognition in the industry. Led by Peter Ho-Sun Chan, Applause Pictures forged new links between the film industries and best film-making talents in Asia including Nonzee Nimbutr and the Pang Brothers from Thailand and Hur-Jin-

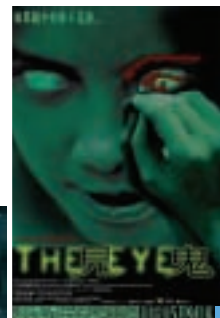
ho and Kim Jee Woon from Korea. Applause Pictures introduced three movies during the year: (1) "The Eye", both a blockbuster and trend setting movie in 2002, which achieved significant box office in Hong Kong and Southeast Asia and won the "Best Leading Actress" and "Best Visual Effects" in "The 39th Golden Horse Award" in Taiwan and the "Best Actress" in "The 22nd Hong Kong Films Awards"; (2) "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 and the "Best New Performer" in "The 22nd Hong Kong Films Awards"; and (3) "Golden Chicken", which achieved significant box office hit during Christmas. These remarkable achievements not only outperformed other competitors in the local market, but also initiated promising returns to the Group.



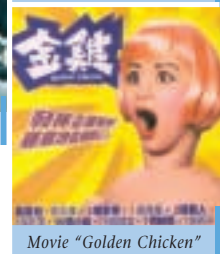
Movie "The New Option"



Movie "Three"



Movie "The Eye"



Movie "Golden Chicken"

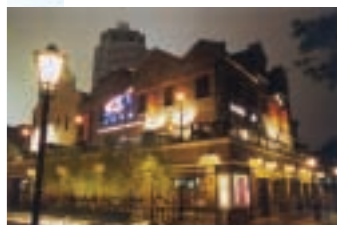
Leisure Business



Leisure business contributed an operating loss of approximately HK\$10 million, which comprised an operating loss of approximately HK\$12 million from theme restaurant operations and operating gain of approximately HK\$2 million from theme restaurant franchising, representing an overall decrease of 91% when compared to that of approximately HK\$114 million in 2002.



Planet Hollywood, Tokyo



Star East, Shanghai



Superstar Kelly Chen visited Planet Hollywood, Tokyo



Artiste shareholders visited Star East, Shanghai



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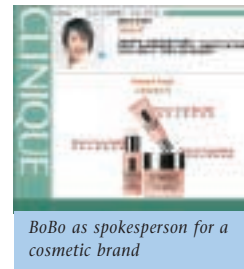
To consolidate its theme restaurant business, the Group has closed down non-profitable Planet Hollywood outlets with the objective of enhancing prospective financial and operating performance. To generate long-term stable returns, the Group has put its emphasis on expanding its market presence in Asia through franchising. During the year, the Group has granted franchises for the operation of “Star East” theme restaurants in Shenzhen, Macau and Dalian in order to enhance its growing presence in China. Current destinations of “Planet Hollywood” across the Asia Pacific region include Bali, Guam, Jakarta, Kuala Lumpur and Tokyo. Riding on its established brand name and celebrity resources, “Star East” has been gaining wide acceptance as a popular star-studded theme restaurant, particularly in China.

Other Businesses

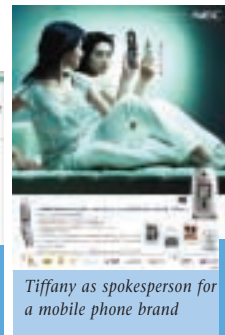
Talent Management and Music Production

Year 2002 was an investment period for talent management and music production divisions, which were both still at a preliminary development stage. During the year, an aggregate operating loss of approximately HK\$14 million was recorded in the Group’s talent management and music production, representing a decrease of 22% when compared to that of approximately HK\$18 million in 2002. There were over 20 artistes managed under the Group as at the end of the year under review. New artistes were being introduced to the market through the release of their respective music albums, and performance in movies, TV programmes, events and quality TV commercials. Although the Group only released 9 music albums during the year, it still achieved encouraging performance. The Group’s new artistes won nearly 25 awards in various awards

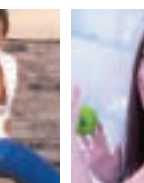
presentation organized by different media in Hong Kong. These included the “Most Popular Group Song – Gold Prize”, “The Best New Group – Silver Prize” and “The Best Commercial Song – Bronze Prize” at TVB “JSG Best 10 Awards Presentation 2002”, “The Most Popular Group Song” at “Metro Radio’s Hit Awards Presentation 2002”, “The Most Distinguished Performance of the Year – Bronze Prize” and “The Best New Artistes Awards – Bronze Prize” at “The 25th Top Ten Gold Songs Awards”. Besides, the Group has initiated strategies of positioning the new artistes targeted for different markets in the Greater China region with a view to tapping into the potential of both the local and overseas markets.



BoBo as spokesperson for a cosmetic brand



Tiffany as spokesperson for a mobile phone brand



Artistes managed under Star East



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Strategic Investment in 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 has been holding an effective interest of approximately 26.9% in M Channel. During the year, M Channel contributed a net loss of approximately HK\$27 million to the Group (2002: HK\$18 million).

Being a new form of outdoor media in the market, M Channel has suffered from the harsh operating environment and continual shrinkage of local advertising spending. Subsequent to the consolidation of business, M Channel retained only the platforms of approximately 1,000 public light buses and fixed locations in Hong Kong such as Watson's The Chemist, which offer M Channel's content through the multimedia telecasting systems installed therein. M Channel's operations in the PRC have been streamlined to focus its business in Guangzhou and Harbin which has been able to generate steady revenue from the built-up advertising clientele.



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 approximately 25.6% to approximately 18.6%.

In December, 2002 the Company entered into a conditional sale and purchase agreement relating to the disposal of its entire interests in Sing Pao Media to Sun Media Group Holdings Limited. The consideration payable by Sun Media was satisfied by Sun Media issuing new Sun Media shares to the Group in the ratio of six Sun Media shares for each Sing Pao Media share. The disposal was duly completed in January 2003, following which the Group no longer holds any interest in Sing Pao Media but owns an approximately 3.8% shareholding interest in Sun Media. Sun Media is a company the securities of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. During the year, Sing Pao Media contributed an aggregate loss of approximately HK\$23 million to the Group (2002: HK\$35 million).

MATERIAL ACQUISITION AND DISPOSAL

In April 2002, the Group disposed of its entire shareholding interests (approximately 49%) in the Mobile Media Group to 36.com Holdings Limited and acquired a 26.9% shareholding interest in 36.com Holdings in return. 36.com Holdings was subsequently renamed M Channel Corporation Limited.

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 Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and was duly approved by independent shareholders of the Company.

In January 2003 the Group disposed of its entire shareholding interests (approximately 18.6%) in Sing Pao Media Group Limited to Sun Media Group Holdings Limited and acquired an approximately 3.8% shareholding interest in Sun Media in return. The disposal constituted a discloseable transaction for the Company under the Listing Rules.



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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.

MAJOR EVENTS SUBSEQUENT

Share Placing and Subscriptions

On 28th March, 2003, the Company entered into a placing arrangement for the placing of 300,000,000 new ordinary shares of HK\$0.005 each to independent individuals, professional and/or institutional and/or other investors at a placing price of HK\$0.04 per share. The placing was duly completed in June 2003 and the Company raised net proceeds of approximately HK\$11.8 million for its general working capital purpose.

On 28th March, 2003, the Company also entered into subscription agreements with ITC Corporation Limited and Strategic Media International Limited for the new issue of 500,000,000 and 1,100,000,000 new ordinary shares of HK\$0.005 each respectively to them at a price of HK\$0.04 per share. Both subscriptions were duly completed in July 2003 and the Company raised net proceeds of a total of approximately HK\$62.7 million for repayment of borrowings and general working capital purpose.

Upon completion of the placing and subscriptions, ITC remains the single largest shareholder of the Company with an interest of approximately 26.1%, whereas Strategic Media has become the second single largest shareholder of the Company with an interest of approximately 25.3%.

Proforma Consolidated Net Asset Value Statement

The following is a summary of the adjusted unaudited proforma consolidated net asset value of the Group after the completion of major subsequent events which have a material impact on the net asset value of the Group:

	<i>HK\$' million</i>
Audited consolidated net asset value of the Group as at 31st March, 2003	58.0
Add: Issue of 300,000,000 ordinary shares at the price of HK\$0.04 per share pursuant to the Placing completed in June 2003	11.8
Issue of 1,600,000,000 ordinary shares at the price of HK\$0.04 per share pursuant to the ITC Subscription and SMI Subscription both completed in July 2003	<u>62.7</u>
Adjusted unaudited proforma consolidated net asset value of the Group	<u><u>132.5</u></u>

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING RATIO

To support the growth of its core businesses, the Group maintained sufficient liquid funds of approximately HK\$14 million, net of pledged deposit, comprising approximately HK\$13 million bank balances and cash and approximately HK\$1 million short-term marketable securities. Approximately 14% of these liquid funds were denominated in Hong Kong dollars and the remainder in foreign currency.

The Group's total borrowings amounted to approximately HK\$229 million, comprising bank borrowings of approximately HK\$149 million and other borrowings of approximately HK\$80 million. The interest-bearing borrowings of approximately HK\$228 million bear interest at prevailing market rates. The bank borrowings were mainly made in Hong Kong dollars with approximately HK\$39 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.



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The Group's gearing ratio as at 31st March, 2003 was approximately 300% (2002: 180%), which is calculated on the basis of the Group's total interest bearing debts net of cash and bank balances, pledged deposit and short-term marketable securities over the total equity interest as at the reporting date. Following the completion of the placing and subscription of shares subsequent to the balance sheet as mentioned in the paragraph headed "Major Events Subsequent", the Group's gearing ratio has been reduced to 75%.

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.

CONTINGENT LIABILITIES

As at 31st March, 2002, the Group had given guarantees to a bank in respect of credit facilities utilised by a non wholly-owned subsidiary of approximately HK\$8 million. This guarantee was released by the bank during the year. As at 31st March, 2003, the Group had no significant contingent liabilities.

PLEDGE OF ASSETS

As at 31st March, 2003, certain of the Group's property interests with an aggregate carrying value of approximately HK\$31 million (2002: HK\$136 million) and the Group's bank deposits of approximately HK\$40 million (2002: HK\$33 million) were pledged to banks to secure credit facilities for the Company and certain of its subsidiaries.

COMMITMENTS

As at 31st March, 2003, the Group had no significant capital and other commitments.

EMPLOYEES

As at 31st March, 2003, the Company and its subsidiaries had 350 employees (2002: 440). Employee remuneration, excluding directors' emoluments, for the year ended 31st March, 2003 was approximately HK\$43 million (2002: HK\$70 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.