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, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's unaudited consolidated loss attributable to shareholders for the six months ended 30th September, 2003 amounted to approximately HK$15 million, (2002: HK$77 million), reduced significantly by 81%. The basic loss per ordinary share was HK$0.0044 (2002: HK$0.0345), a reduction of 87%.

The Group's net loss comprised:

(i) net gain of approximately HK$4 million in movies, television dramas and documentary production, distribution and licensing (2002: HK$1 million loss);

(ii) net loss of approximately HK$8 million in theme restaurant operation and franchising (2002: HK$4 million gain);

(iii) net loss of approximately HK$3 million in property investment (2002: HK$11 million);

(iv) net loss of approximately HK$13 million in investment in securities (2002: HK$7 million); and

(v) net gain of approximately HK$5 million in other operations and corporate business (2002: HK$62 million loss).

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

The net loss in investment in securities included an impairment loss recognised in respect of the Group's 3.79% interest in Sun Media Group Holdings Limited of approximately HK$12 million by reference to the estimated value of such investment during the period under review.

BUSINESS REVIEW

During the period under review, the Group's regional businesses have been adversely affected by the persistent sluggish economy in Hong Kong and around the region, which was further dampened by the severe impact of the outbreak of SARS from March to May 2003. To cope with the challenges, stringent cost control measurements were put in place and the management has concentrated the Group's resources on core business with profit prospects and in areas where it can build an ongoing competitive advantage. The management's strategy has proven to be timely and effective, enabling the Group to reduce its loss from HK$77 million to HK$15 million notwithstanding the severe impact of SARS.

In line with the Group's long-term vision to strengthen its strategic foothold in the PRC market, the management has been actively pursuing opportunities for strategic alliances in the PRC. In July 2003, the Group successfully forged a strategic alliance with Strategic Media International Limited ("SMI"), and SMI became a substantial shareholder of the Group holding approximately 25.28% of the issued share capital of the Group as a result.

Production, distribution and licensing of content

During the period under review, the Group has focused its resources on core business with profit prospects, in particular the production, distribution and licensing of content. Despite continuing poor economic conditions and the SARS gloom, the Group was able to maintain a positive operating result of approximately HK$142,000 (2002: HK$2 million). Against the adverse local economic environment, the Group has scaled back on production number and postponed the release of movies amidst the SARS impact.

With a balanced portfolio of self-invested film productions, films financing, co-productions and commissioning projects as well as a prudent approach in film investments, the Group produced and licensed premium Chinese entertainment content including movies, television content and documentaries through various production arms. This ensured the Group to enrich its diversified content repertoire with higher quality and greater quantity. During the period, Bob became an associated company of the Group. The Group's investment in the pan-Asian film production venture, Applause Pictures, continued to deliver promising returns to the Group. Applause Pictures continued to syndicate financing and initiated co-production projects during the period. Although it did not introduce any movies during the period amidst the SARS gloom, "The Eye", a blockbuster with its remake rights having been acquired by Paramount and Cruise/Wagner, has achieved unprecedented success Asia-wide and continued to deliver impressive performance. With upcoming releasing countries including Belgium, France, Greece, Luxemburg, Netherlands, Spain, Turkey, and the United States, "The Eye" has topped the Italy box office at its opening weekend in May. Such remarkable achievements in the expansion of the regional and global distribution not only outperformed other competitors in the local market, but also further strengthened Applause Pictures' leading position in the pan-Asian film production industry and increased its market share and market penetration.

Another premium movie production label, Anytime Pictures was launched with the release of its first movie project “Men Suddenly In Black” in September 2003. Anytime Pictures aims to producing high quality Hong Kong movies targeting the Chinese speaking audiences worldwide. With strenuous efforts of the resourceful production personnel led by Mr. Eric Tsang, “Men Suddenly In Black” achieved satisfactory box office and has been nominated for “the Best Director”, “the Best Supporting Actor”, “the Best Original Screenplay” and “the Best Film Score” in both “Hong Kong Film Awards 2004” and “The Taiwan Golden Horse Awards”. As the SARS effect has been mitigated in the latter part of the period, the remaining films of Anytime Pictures scheduled for productions were moving back on track.

The production and licensing of documentaries was the only business of the Group that was insulated from the SARS impact and maintained a stable recurring income. China Action was appointed by Discovery Networks Asia as the Supervising Producer of the “First-time Filmmaker” project in China and was responsible for the supervision and production of a series of six half-hour documentaries. The series were aired on Discovery Networks Asia in June 2003 with impressive rating performance. The excellence in such documentary production won critical acclaim and international recognition with “The Weight of Paper” became the winner of “the Best Documentary” while “Beating Tradition” and “Forever Beijing” were Runner-ups in “the Asian TV Awards”. The Group’s another highly acclaimed documentary label – Discover China, through licensing to National Geographic Channels and Discovery Channels, also had its documentaries aired in over hundred countries globally.

Leisure business

Leisure business contributed an operating loss of approximately HK$8 million (2002: HK$7 million), which comprised an operating loss of approximately HK$11 million (2002: HK$12 million) from theme restaurant operations and operating gain of approximately HK$3 million (2002: HK$5 million) from theme restaurant franchising.

Franchising of theme restaurants has been contributing a stable recurring income to the Group. However, the regional operation of theme restaurants has been adversely affected by the outbreak of SARS. Facing the harsh challenges from operations, the management continued to focus on cost rationalisation in theme restaurant operations, which managed to achieve modest improvement in the bottom line. With the Group’s strategy of reallocation of resources away from non-profitable businesses, no further investment or expansion took place in the theme restaurant operations of the Group.

Other businesses

Talent management and music production

Amidst the continuing soft operating environment of the local market, an aggregate operating loss of approximately HK$4 million was recorded in the Group's talent management and music production, representing a decrease of 60% when compared to that of approximately HK$10 million in the preceding period. The continuing impact of SARS has slowed down the release of music albums and resulted in cancellation or postponement of events that were originally planned or committed to.

Stringent cost control measurements were implemented and the Group has adopted a prudent investment approach in talent management and music production. As a result, only 2 music albums were released during the period under review. Moving ahead with its long-term strategy of developing the PRC market for artistes, the Group has achieved a growing presence of its artistes in the PRC, in particular the Southern China, through various promotion events and mini-concerts in Guangdong.

Strategic Investment in M Channel Corporation Limited

The Group has an effective interest of approximately 26.9% in M Channel. For the six months ended 30th September, 2003, M Channel recorded a net loss of approximately HK$22 million (2002: HK$34 million).

M Channel has suffered from the harsh operating environment, in particular amidst the SARS impact. M Channel is engaged in the out-of-home audio and media business through the platforms of approximately 1,000 public light buses and approximately 160 fixed locations, such as Watson's The Chemist, in Hong Kong and approximately 1,100 public buses in Guangzhou and Harbin, the PRC.

OUTLOOK

Modest improvement in the local economy is anticipated for the coming period with the SARS impact being mitigated and the positive effect expected from the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the PRC. It is also expected that tremendous growth opportunities will emerge with the PRC's successful entry into the WTO and continuing robust economic growth. Moving forward, the Group will continue to pursue its operational and growth initiatives including containing operating costs, maximizing its business synergies, focusing its resources on core business with profit prospects, setting new growth platform and strengthening its foothold in the PRC market. The Group will focus its theme restaurant franchising in the PRC, while for talent management and music production it will continue to develop and explore the market opportunities in the PRC.

The promising growth momentum of the wireless value-added service market, which will be further driven by the tremendous growth of mobile phone users in the PRC, presents an encouraging and positive outlook. To tap into the immense growth potential of such market, the Group has successfully established a Sino-foreign joint venture in the PRC with Stellar Megamedia Group. Planning and preparation of the current operation setup in the PRC is underway and the service is targeted for launch in first half of year 2004.

In order to enhance its competitiveness, the Group will focus on adding new elements to stimulate its film production quality. The Group embarked upon several production plans through its various production arms, which are progressing well and expected to be released by the end of 2003 and early 2004. Some of these productions include the sequels to "Golden Chicken" and "The Eye" by Applause Pictures. Anytime Pictures is also poised to capture opportunities in the lucrative film market in China. On the documentary production, China Action has recently successfully pitched the documentary fund commissioned by the National Geographical Channels and the Singapore Economic Board, whereas Discover China plans to produce a series of documentaries so as to tap into the profit potential of international licensing. Taking into account the improved sentiments in the local movie industry and the possible future potential of content production business in the PRC resulting from the recent CEPA arrangement, the Group is cautiously optimistic about the growth opportunities in the movie industry.

Recently, the Group entered into a subscription agreement with SMI pursuant to which SMI would increase its shareholding interest in the Company. The increase in shareholding interest of SMI in the Company represents a further strengthening of the relationship between SMI and the Group. This will assist the Group in developing its business in the PRC, thus enhancing its growing presence in China. The subscription will also strengthen the Group's financial position and provide working capital to the Group to develop its media entertainment business.

The Company has also entered into an agreement with SMI to acquire a 20% equity interest in Fee Tang Production Co., Limited ("Fee Tang"), a Sino-foreign equity joint venture established in the PRC, through the acquisition of a 100% interest in Realmax Holdings Limited. Fee Tang is principally engaged in the research, development and manufacture of computer software and prop scene, etc. in the PRC. The acquisition is expected to broaden the business scope of the Group and hence its revenue streams.

It is the vision of the Group to become the leading entertainment and media conglomerate in Asia. With the Group's competitive positioning further strengthened, we look forward confidently to resuming growth momentum and demonstrating better returns to shareholders.

FUND RAISING

During the period under review, the Group raised new equity funding of approximately HK$74.5 million by means of (i) a placing of 300 million new shares at a price of HK$0.04 per share to independent third parties, which was completed on 12th June, 2003; (ii) a subscription of 500 million new shares by ITC Corporation Limited ("ITC"), a substantial shareholder of the Company, at a price of HK$0.04 per share, which was completed on 9th July, 2003; and (iii) a subscription of 1,100 million new shares by Strategic Media International Limited ("SMI") at a price of HK$0.04 per share, which was also completed on 9th July, 2003. Upon completion of the said placing and subscription by ITC and SMI, ITC remained the single largest shareholder of the Company with an interest of approximately 26.1%, whereas SMI became the second single largest shareholder of the Company with an interest of approximately 25.3%.

Out of the aforesaid HK$74.5 million new equity funding raised by the Group, approximately HK$20 million was applied to partially repay a shareholder's loan, and the balance of approximately HK$54.5 million was designated for general working capital purpose.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal during the period under review.

MAJOR EVENTS SUBSEQUENT

On 6th November, 2003, the Company entered into a subscription agreement with SMI pursuant to which SMI conditionally agreed to subscribe for 1,575,000,000 new shares at a price of HK$0.04 per share (the "SMI Subscription"). The shares to be issued under the SMI Subscription represented approximately 36.20% of the then issued share capital of the Company or approximately 26.58% of the issued share capital of the Company as enlarged by the issue of the new shares under the SMI Subscription. The net proceeds from the issue of the 1,575,000,000 new shares under the SMI Subscription were estimated to be approximately HK$61 million. As SMI is a substantial shareholder and connected person of the Company, the SMI Subscription constituted a connected transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and was subject to independent shareholders' approval which was duly obtained by the Company in the special general meeting of its shareholders held on 16th December, 2003.

On 6th November, 2003, the Company also entered into a sale and purchase agreement with SMI pursuant to which the Company conditionally agreed to acquire from SMI (i) the entire issued share capital of Realmax Holdings Limited ("Realmax"); and (ii) the shareholder's loan extended by SMI to Realmax in the total amount of HK$20 million before completion for an aggregate consideration of HK$20 million payable in cash (the "Proposed Acquisition"). The Proposed Acquisition constituted a discloseable and connected transaction for the Company under the Listing Rules and was subject to independent shareholders' approval which was duly obtained by the Company in the special general meeting of the Company's shareholders held on 16th December, 2003.

Immediately after and subject to the completion of the SMI Subscription, SMI will own 2,675,000,000 shares, representing approximately 45.14% of the enlarged issued share capital of the Company immediately after the completion of the Subscription. Pursuant to Rule 26 of The Hong Kong Code on Takeovers and Mergers, SMI, through Kingsway Financial Services Group Limited, Get Nice Investment Limited and Young Champion Securities Limited, will make a mandatory conditional general offer to acquire all the shares not already owned by or agreed to be issued to SMI or parties acting in concert with it immediately after the completion of the Subscription at HK$0.04 per share, and to cancel all outstanding share options granted under the old share option scheme of the Company (adopted on 29th April, 1996) and the existing share option scheme of the Company (adopted on 28th August, 2002), other than those held by SMI or parties acting in concert with it, at HK$0.001 and HK$0.007 per share option respectively (the "Star East General Offer").

Further details of the Subscription, the Proposed Acquisition and the Star East General Offer can be found in the circular issued by the Company and despatched to its shareholders on 27th November, 2003.

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$31 million, net of pledged bank deposits, comprising approximately HK$14 million bank balances and cash and approximately HK$17 million short term marketable securities. Approximately 89% of these liquid funds were denominated in Hong Kong dollars with the remainder in foreign currency.

As at 30th September, 2003, the Group's total borrowings amounted to approximately HK$197 million, comprising bank borrowings of approximately HK$137 million and other borrowings of approximately HK$60 million. The interest-bearing borrowings of approximately HK$197 million bore interest at prevailing marketing rates. The bank borrowings were mainly stated in Hong Kong dollars and approximately HK$39 million was denominated in Japanese Yen. The Japanese bank borrowings were used to hedge a substantial part of the Group's foreign currency investment in Japan.

Following the completion of the placing and subscription of shares during the period under review, the Group's gearing ratio as at 30th September, 2003 was approximately 111% (31.3.2003: 300%), 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 adopt prudent cash management and, when necessary, will engage in currency hedging against exchange risks.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September, 2003, the Company and its subsidiaries had 272 employees (2002: 352). Employee remuneration, excluding directors' emoluments, for the six months ended 30th September, 2003 totalled approximately HK$14 million (2002: HK$21 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.