

3. SEGMENT INFORMATION – continued

For the six months ended 30th June, 2003

	Hong Kong and Macau HK\$'000	PRC HK\$'000	America and Europe HK\$'000	South-east Asia HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	<u>53,115</u>	<u>13,348</u>	<u>12,148</u>	<u>22,243</u>	<u>1,929</u>	<u>102,783</u>
Segment results	<u>(11,033)</u>	<u>8,772</u>	<u>2,398</u>	<u>(4,291)</u>	<u>(4,681)</u>	<u>(8,835)</u>
Amortisation of goodwill						(8,791)
Other operating income						3,401
Unallocated corporate expenses						<u>(31,485)</u>
Loss from operations						<u><u>(45,710)</u></u>

4. LOSS FROM OPERATIONS

Six months ended
30.6.2004 30.6.2003
HK\$'000 **HK\$'000**

Loss from operations has been arrived at after charging (crediting):

Amortisation of film rights (included in cost of sales and services)	66,854	83,506
Cost of inventories (included in cost of sales and services)	525	1,795
Depreciation and amortisation of property, plant and equipment	7,141	7,189
Loss on disposal of property, plant and equipment	706	309
Staff costs including directors' emoluments	10,319	13,606
Net unrealised loss on investments in securities	8,664	–
Impairment loss recognised in respect of films in progress	2,000	–
Interest income	<u>(757)</u>	<u>(397)</u>

5. TAXATION

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Current tax in other jurisdictions	<u>131</u>	<u>97</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries operating in Hong Kong incurred a tax loss for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

6. BASIC AND DILUTED LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Loss for the purposes of basic and diluted loss per share (net loss for the period)	<u>(39,546)</u>	<u>(17,306)</u>
	Number of shares	
	30.6.2004	30.6.2003
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>303,841</u>	<u>228,519</u>

The computation of diluted loss per share for the six months ended 30th June, 2004 does not assume the exercise of the Company's outstanding share options and convertible loan note outstanding during the period since their exercise would reduce loss per share.

The computation of diluted loss per share for the six months ended 30th June, 2003 did not assume the exercise of the Company's outstanding share options, warrants and convertible loan note outstanding during the period since their exercise would reduce loss per share.

7. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$2,373,000 (2003: HK\$2,157,000).

The directors have considered the carrying amount of the Group's investment properties carried at revalued amounts and have estimated that the carrying amounts did not differ significantly from that which would be determined using fair value at 30th June, 2004. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. INTERESTS IN ASSOCIATES

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Share of net assets	134,121	138,629
Goodwill (note a)	85,455	57,665
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Convertible notes issued by an associate (note b)	219,576 33,800	196,294 33,800
	<hr/>	<hr/>
	253,376	230,094
Less: Convertible notes due within one year and shown under current assets (note 10)	(33,800)	-
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	219,576	230,094
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Notes:

- (a) Details of movements in goodwill arising on acquisitions of associates are as follows:

	HK\$'000
COST	
At 1st January, 2004	74,096
Adjustment to consideration for the acquisition of an associate in prior year *	(10,000)
Arising on acquisition of 49% equity interest in Together Again Limited ("TAL")	43,606
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At 30th June, 2004	107,702
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AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	16,431
Amortisation for the period	5,816
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At 30th June, 2004	22,247
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CARRYING AMOUNTS	
At 30th June, 2004	85,455
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At 31st December, 2003	57,665
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8. INTERESTS IN ASSOCIATES – continued

Notes:

(a) continued

- * Pursuant to a sales and purchase agreement and a supplemental agreement entered into among the Group, the vendor and the vendor's shareholder (who acted as the guarantor), the vendor warranted that dividends from Golden Capital International Limited ("Golden Capital"), an associate of the Group, for the year ended 31st December, 2003 would not be less than HK\$10,000,000. The vendor and the vendor's shareholder agreed to pay the Group a sum equivalent to the shortfall between HK\$10,000,000 and the actual dividends received by the Group ("Liquidated Damage"). No dividend was declared by Golden Capital for the year ended 31st December, 2003. During the period, the vendor's shareholder agreed to pay the Liquidated Damage, in which HK\$1,000,000 and HK\$3,000,000 were received by the Group in April 2004 and July 2004 respectively and the remaining balance of the Liquidated Damage will be settled by 2 equal instalments in October 2004 and January 2005. Therefore, the consideration for the acquisition of Golden Capital was adjusted accordingly.

On 15th March, 2004, the vendor's shareholder granted to the Group an option to require the vendor's shareholder to purchase from the Group an aggregate of 356 shares of US\$1 each in the share capital of Golden Capital, representing the Group's entire shareholding in Golden Capital, at an aggregate consideration of HK\$25,000,000. The Group may exercise the option in the event that the net profits after taxation but before extraordinary items as shown in the audited accounts of Golden Capital for the year ending 31st December, 2004 is less than HK\$14,600,000.

The amortisation period adopted for the goodwill is 5 to 10 years and amortisation charged for the period amounting to approximately HK\$5,816,000 (1.1.2003 to 30.6.2003: HK\$4,638,000) has been included in the amount reported as share of results of associates in the condensed consolidated income statement.

In the opinion of the directors, the carrying values of the goodwill arising on the acquisitions of associates, namely Golden Capital and its subsidiary, 北京澳昌科技有限公司 and TAL, do not differ significantly from its recoverable amount.

- (b) The convertible notes bear interest at 1% per annum which is payable semi-annually in arrears and will mature on 19th April, 2005. Prior to the maturity, neither the Group nor Riche Multi-Media Holdings Limited ("Riche Multi-Media") has the right to redeem or request for redemption of the convertible notes. The convertible notes carry the right to convert the whole or any part of the outstanding principal amount of the notes into ordinary shares of HK\$0.1 each in the share capital of Riche Multi-Media at a conversion price of HK\$4.0 per share at any time on or before 19th April, 2005. The convertible notes may be transferred in whole or in part of the outstanding principal amount into share capital of Riche Multi-Media by the Group.

9. DEPOSIT FOR INVESTMENT

- (a) During the period, the Group entered into a conditional sale and purchase agreement with a third party pursuant to which the Group agreed to purchase and the third party agreed to sell 30% of the issued share capital of a company at a consideration of HK\$12,000,000. The principal activity of the company is the provision of mobile entertainment on demand platform in the PRC. The completion of the conditional sale and purchase agreement is conditional on the Group being satisfied with the results of the due diligent review of the assets, liabilities, operations and affairs of the company and its subsidiaries. Pursuant to the conditional sale and purchase agreement, the Group paid a refundable deposit of HK\$12,000,000 to the third party.

9. DEPOSIT FOR INVESTMENT – continued

- (b) Pursuant to the letters of intent and deed entered into between the Group and a third party (the "Vendor") during 2002, the Group would purchase an aggregate of 49% equity interest in a company ("Potential Investee Company") which principally engages in video advertising business on coaches in the PRC at a consideration of not more than HK\$98 million. Pursuant to the letters of intent and deed, the Group paid a deposit of HK\$49 million to the Vendor and the deposit would be refundable if the Group did not satisfy with the results of the financial and legal due diligence review on the Potential Investee Company ("Review") for any reasons.

During the year ended 31st December, 2003, the Group did not satisfy with the results of the Review and decided not to acquire the 49% equity interest in the Potential Investee Company.

On 29th March, 2004, the Group entered into the following settlement arrangements with the Vendor:

- (i) the sum of HK\$25,000,000 (included in loan receivables at 30th June, 2004) would be repayable on or before 28th March, 2006. This amount bears an interest at 2% per annum, which would be payable semi-annually, and would be guaranteed by another third party;
- (ii) the sum of HK\$12,000,000 would be repaid to the Group during 2004. In March 2004, the Vendor settled the sum of HK\$12,000,000 to the Group; and
- (iii) the sum of HK\$12,000,000 would be exchanged for advertising services to be provided by an advertising agent to the Group with an aggregate value of HK\$12,000,000 for a period of 18 months commencing from 1st April, 2004. During the period, the Group utilised advertising services amounting to approximately HK\$2,858,000. The remaining balance of approximately HK\$9,142,000 is included in deposits and prepayments at 30th June, 2004.

10. CONVERTIBLE NOTES RECEIVABLES

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Convertible notes issued by an associate (<i>Note 8(b)</i>)	33,800	–
Convertible notes issued by third parties (<i>Note</i>)	52,000	–
	85,800	–

Note:

On 15th March, 2004, the Group entered into two subscription agreements with two shareholders ("Note Issuers") of Colima Enterprises Holdings Inc. ("Colima"), the holding company of TAL, pursuant to which the Group subscribed for two convertible notes of HK\$26,000,000 each ("Convertible Notes") issued by the Note Issuers for an aggregate consideration of HK\$52,000,000. Each of the Convertible Notes bears interest at 1% per annum, secured by a charge on the relevant Note Issuers' entire equity interest in Colima and will mature on 36 months from the date of the relevant subscription agreements or the date of the listing of a proposed holding company of TAL on a recognised stock exchange, whichever is the earlier.

Each of the Convertible Notes carries the rights to convert the whole or any part of the outstanding principal amount of the Convertible Notes into shares in the relevant Note Issuer in accordance with the formula as set out in the relevant subscription agreement from 15th March, 2005 to 14th March, 2007 or the date of the listing of a proposed holding company of TAL on a recognised stock exchange, whichever is the earlier. If the Group exercises its rights to convert the full amount of the Convertible Notes into each of the shares in the Note Issuers, the Group will have approximately 99% direct equity interests in the Note Issuers and 99% indirect equity interest in the group headed by Colima respectively.

11. FILM RIGHTS

Additions of film rights during the period amounted to approximately HK\$84,420,000 (30.6.2003: HK\$78,222,000).

12. TRADE DEBTORS

The credit period granted to customers ranges from 30 to 90 days.

The following is an aged analysis of trade debtors at the reporting date:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Riche Multi-Media and its subsidiaries (collectively the "Riche Group"):		
0 to 30 days	1,160	1,010
31 to 60 days	236	3,834
61 to 90 days	1,252	595
91 to 180 days	5,258	5,082
Over 180 days	256	3,782
	8,162	14,303
Others:		
0 to 30 days	3,881	3,601
31 to 60 days	432	539
61 to 90 days	559	420
91 to 180 days	270	524
Over 180 days	9,533	10,389
	14,675	15,473
	22,837	29,776

13. PLEDGED BANK DEPOSITS

At 30th June, 2004, the Group pledged deposits of approximately HK\$1,618,000 (31.12.2003: HK\$4,557,000) to a bank to secure the general banking facilities granted to the Group.

14. TRADE CREDITORS

The following is an aged analysis of trade creditors at the reporting date:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
0 to 30 days	1,971	11,167
31 to 60 days	2,355	1,730
61 to 90 days	6,892	3,161
91 to 180 days	4,249	3,925
Over 180 days	11,549	11,900
	27,016	31,883

15. AMOUNTS DUE TO ASSOCIATES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

16. BORROWINGS

	30.6.2004 HK\$'000	31.12.2003 <i>HK\$'000</i>
Secured bank loans	26,857	17,218
Unsecured convertible loan note	20,000	20,000
	46,857	37,218

The maturity of the above borrowings is as follows:

Within one year	10,496	21,969
More than one year but not exceeding two years	2,255	2,019
More than two years but not exceeding five years	27,143	6,343
More than five years	6,963	6,887
	46,857	37,218
Less: Amount due within one year shown under current liabilities	(10,496)	(21,969)
Amount due after one year	36,361	15,249

Secured bank loans comprise a revolving loan and a mortgage loan which bear interest at commercial rate, and are secured by the Group's investment properties and leasehold land and buildings in Hong Kong with carrying value of HK\$31,600,000 (31.12.2003: HK\$27,800,000) and HK\$5,361,000 (31.12.2003: nil) at 30th June, 2004 respectively. The revolving loan is repayable on demand and the mortgage loan is repayable in instalments over a period of ten years.

The convertible loan note (the "Note") bears interest at 4% per annum which will be payable semi-annually in arrears was originally matured on 30th June, 2004. On 14th June, 2004, the Company and the noteholder entered into a supplemental deed, pursuant to which the Company and the noteholder agreed to extend the maturity date of the Note from 30th June, 2004 to 30th June, 2007. The Note carries the right to convert the principal amount of the Note into shares of HK\$0.05 each in the share capital of the Company at an initial conversion price of HK\$0.2 per share, subject to adjustment. The conversion price was adjusted to HK\$5.83 per share due to the completion of rights issue, consolidation of shares and rights issue with bonus issue during the year ended 31st December, 2002. From 14th June, 2004 to the 14th business day immediately preceding 30th June, 2007, the noteholder can convert the outstanding principal amount of the Note into shares of the Company.

17. RESERVES

	Goodwill			Exchange reserve	Warrant reserve	Capital	Investment	Accumulated losses	Total
	Share	on	Contributed			reduction	revaluation		
	premium consolidation	Contributed surplus	surplus			reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	698,318	6,326	186,624	(48)	23,868	316,008	(355)	(443,501)	787,240
Gain on expiry of warrants recognised in the condensed consolidated income statement	-	-	-	-	(23,868)	-	-	-	(23,868)
Exchange adjustment	-	-	-	254	-	-	-	-	254
Net loss for the period	-	-	-	-	-	-	-	(17,306)	(17,306)
At 30th June, 2003	<u>698,318</u>	<u>6,326</u>	<u>186,624</u>	<u>206</u>	<u>-</u>	<u>316,008</u>	<u>(355)</u>	<u>(460,807)</u>	<u>746,320</u>
At 1st January, 2004	746,090	6,326	186,624	445	-	316,008	(184)	(496,979)	758,330
Exchange adjustment	-	-	-	(106)	-	-	-	-	(106)
Net loss for the period	-	-	-	-	-	-	-	(39,546)	(39,546)
At 30th June, 2004	<u>746,090</u>	<u>6,326</u>	<u>186,624</u>	<u>339</u>	<u>-</u>	<u>316,008</u>	<u>(184)</u>	<u>(536,525)</u>	<u>718,678</u>

18. RELATED PARTY TRANSACTIONS

In addition to the related parties transactions and balances set out in notes 8, 10, 12, 13 and 15, the Group also enters into the following significant transactions with related parties during the period.

- (a) On 5th February, 2002 the Group and the Riche Group entered into a territory supply agreement whereby the Group, during the term of three years from 8th April, 2002, granted in favour of the Riche Group a first right of refusal to acquire the exclusive distribution rights excluding the theatrical and internet rights in respect of each film in the PRC and Mongolia ("Distribution Rights") and an option to acquire the theatrical rights.

Pursuant to the territory supply agreement, the Riche Group paid an amount of HK\$5,000,000 to the Group as a deposit, for the grant of the first right of refusal to acquire the Distribution Rights and as security for the licence fees payable under the territory distribution agreements to be entered into. If the Riche Group elects to acquire the Distribution Rights, a territory distribution agreement in respect of the film will be entered into pursuant to which the Riche Group shall pay a licence fee in respect of each film, ranging from approximately HK\$200,000 and HK\$1,000,000 calculated by reference to its grading. The Distribution Rights in respect of a film will be for a period of ten years. In relation to the option to acquire the theatrical rights, the additional license fee shall be equal to the balance of the total income received by the Riche Group in respect of the exploitation of such theatrical rights before payment of any distribution expenses but after deducting a sum equal to 20% of the said total income which shall be retained by the Riche Group.

During the period, the Group granted Distribution Rights to the Riche Group at a total consideration of approximately HK\$5,400,000 (1.1.2003 to 30.6.2003: HK\$4,600,000) and the Group granted theatrical rights to the Riche Group at a total license fee of approximately HK\$3,900,000 (1.1.2003 to 30.6.2003: HK\$6,800,000) pursuant to the relevant territory distribution agreements.

18. RELATED PARTY TRANSACTIONS – continued

- (b) During the period, the Group entered into the following transactions with related parties:

		Six months ended	
		30.6.2004	30.6.2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Management fee income received from China Star Management Limited ("CSML")	(i) & (iii)	1,400	–
Service charges paid to CSML	(i) & (iii)	3,320	–
Artists promotion charges paid to CSML	(i) & (iii)	4,368	–
Post-production service income received from Riche Group	(i) & (iv)	1,095	602
Interest income from Riche Group	(ii) & (iv)	169	169
		<u>169</u>	<u>169</u>

Notes:

- (i) These transactions were transacted at price mutually agreed between the parties.
- (ii) Interest income was calculated at 1% per annum in accordance with the terms of the convertible notes issued by Riche Multi-Media.
- (iii) CSML is an associate of the Group.
- (iv) Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are also directors of the Riche Group.
- (c) During the period, Golden Capital utilised the trade finance banking facility granted to the Group by a bank. The extent of such facility utilised by the associate at 30th June, 2004 amounted to approximately HK\$1,281,000 (31.12.2003: HK\$676,000). The Group pledged deposits of approximately HK\$1,618,000 (31.12.2003: HK\$4,557,000) to secure this facility and received a fee of approximately HK\$14,000 from Golden Capital. The fee was agreed between the parties.
- (d) During the period, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany provided personal guarantees to a bank to secure banking facilities granted to the Group. No fee was paid to them by the Group.

19. DISPOSAL OF SUBSIDIARIES

The net assets of the wholly owned subsidiaries at the date of disposal were as follows:

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Net assets disposed of	24,363	–
Gain on disposal	7,524	–
	<hr/>	<hr/>
Total consideration	31,887	–
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	21,000	–
Interest in an associate (Note)	10,887	–
	<hr/>	<hr/>
	31,887	–
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Note: On 15th March, 2004, the Group entered into a sale and purchase agreement with TAL pursuant to which the Group agreed to sell and TAL agreed to purchase the entire issued share capital of Imperial International Limited ("Imperial"), a wholly-owned subsidiary of the Company. The principal assets of Imperial are the 100% shareholding interests in CSML and Anglo Market International Limited. The consideration for the sale and purchase of the entire issued share capital of Imperial was satisfied by the allotment and issue of 8,080 new shares of US\$1 each in the share capital of TAL, credited as fully paid, by TAL to the Group. Since then, the Group holds an aggregate 49% equity interest in TAL.

The disposed subsidiaries did not make any significant contribution to the results on cash flows of the Group during the period.