

Chairman's Statement

Others

Several businesses were under fledgling operations during the year under review, which included market communications, event marketing, talent performance and music production. The losses contributed from these businesses were mainly initial development costs.

Riding on Star East's artiste resources, communications tactics and production know-how, the Group shall continue to offer versatile one-stop market communications services to a variety of commercial brands. In particular, the Group sees tremendous opportunities present in China market in the coming years with increasing demand for creative one-stop market communications and talent performance services.

Throughout the year, the Group has put more emphasis on the talent management and music production operations. Several new elites were introduced to public with the release of their respective new lyrics, quality television commercials, movies and music albums, amongst whom included Bobo Chan, EO2, E-kids and Sisi Cheung. In addition, the Group also released a new Mandarin music album for international superstar, Jackie Chan, which has received overwhelming response from fans in the Greater China region. To further strengthen its foothold in the market, the Group shall continue to recruit new talents whilst developing the Greater China market for the existing contracted artistes.

During the year, the Group used its best endeavour in disposing of its non-core assets and consequently reduced its finance costs significantly.



Jackie Chan's Mandarin album



Bobo Chan's second cantonese album



Artiste group EO2



Artiste Tiffany as spokesperson for a jewellery brand



Artiste group E-kids

applause|pictures



Movie "The Eye"



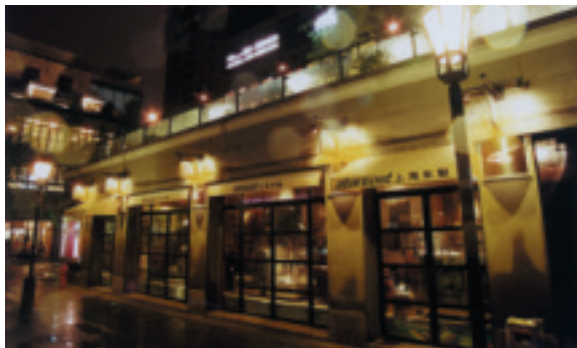
Movie "Three"

OUTLOOK

In line with its objective of becoming a fully integrated entertainment and media conglomerate in the Asia Pacific region, the Group shall further strengthen and consolidate its existing entertainment and media related businesses. The management expects that the coming year shall be another difficult year for the domestic market. To stay ahead of competitions, the Group shall continue to maximize cost synergies among its different operations to reinforce its competitive edge and extend its market share in the entertainment and media arena.

For movie and TV dramas production, the Group's wholly-owned subsidiary, Bob & Partners Co., Limited will focus on commissioning projects and co-productions with the PRC partners in order to generate a secured source of income, whereas for Applause Pictures, given the satisfactory box office hits and outstanding recognition it has attained in the movie industry last year, more production has been planned and will be in the pipeline for release soon. The Group believes that its investment in Applause Pictures, currently a 40% owned associated company, is expected to generate promising returns whilst increasing its market penetration in the region.

Chairman's Statement



Star East, Shanghai

It is the Group's vision to emerge as one of the leading content providers in Asia, offering premium Chinese content for the flourishing regional TV platforms in Asia. Possessing the region's most resourceful artistes and best production personnel, the Group is well positioned and plans to produce and distribute over 500 hours of regional contents annually. Leveraging the nationwide distribution channels and syndication networks established by its associated companies and strategic partners in the PRC, the Group will be able to achieve quick penetration into the lucrative media market there without straining capital expenditures.

The Group has been able to establish a solid entry into the PRC dining and entertainment market through the opening of its "Star East" flagship store in Shanghai. Strategically located at Xintiandi, "Star East Shanghai" is an up and coming entertainment landmark in the business hub of the PRC. Riding on the wide acceptance of "Star East" as a popular star-studded entertainment and dining zone, and blending the popularity and attraction generated by Hong Kong celebrities among the PRC mass with that of the PRC celebrities, the Group will put its emphasis on expanding its market presence in the PRC through franchising and show-biz. The Group has already signed up two franchised stores in Shenzhen and Macau subsequent to the year end, and expects to expand further in the PRC so as to generate a stable income stream for the Group. Leveraging the connection built with Disney Group and the hotel network of the inter-group companies, the Group will also closely look into new store opening opportunities at prime locations of tourist attractions.

With Mainland China's successful entry into the WTO and the prelude of Olympic 2008, the Group looks forward confidently to the long term continued growth opportunities of the Group in the China market. With its strategy of continuously expanding the breadth of its operations to major cities in the PRC, the Group shall be well-positioned to capture the business opportunities that will be emerged in the years ahead.

MAJOR EVENTS SUBSEQUENT

Capital reorganization

On 26th February, 2002, the Company announced a capital reorganisation proposal under which, inter alia, the nominal value of and the paid up amount on each existing issued ordinary share would be reduced from HK\$0.10 to HK\$0.005 by cancelling an amount of HK\$0.095 paid up thereon, and an amount of HK\$1,850 million standing to the credit of the Company's share premium account would be cancelled and transferred to the contributed surplus account. The capital reorganisation proposal was duly approved by the Company's shareholders in a special general meeting held on 9th April, 2002 and became effective on 10th April, 2002. The amounts arising from the capital reduction and share premium cancellation were applied towards elimination of the Company's deficit.

Top-up placing and second placing

On 3rd May, 2002, the Company announced a top-up placing arrangement pursuant to which 276,200,000 existing ordinary shares held by ITC Corporation Limited ("ITC"), a substantial shareholder of the Company, would be placed to independent professional investors at a



Star East, Macau

price of HK\$0.08 per share and 350,000,000 new ordinary shares would be subscribed by ITC at the same price per share. On the same date, the Company also announced a second placing arrangement pursuant to which 350,000,000 new ordinary shares would be placed to independent professional investors at a price of HK\$0.08 per share. The top-up placing was duly completed on 16th May, 2002 and the second placing was duly completed on 12th June, 2002. The Company raised net proceeds of approximately HK\$27.3 million under the top-up placing and HK\$27.2 million under the second placing, which were intended for repayment of borrowings and general working capital.

Disposal of property interests

On 17th May, 2002, the Company announced that it had entered into a sale and purchase agreement with Paul Y. – ITC Construction Holdings Limited ("Paul Y.") to dispose of Unicon Industrial Group Limited ("Unicon") to Paul Y. at a total consideration of HK\$103 million. The sole asset of Unicon was its indirect holding of a landed property at Subsection 3 and Remaining Portion both of Section D of Yuen Long Town Lot No. 313 and Extensions thereto. The disposal constituted a discloseable transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further, as Paul Y. is an associate of ITC which is a substantial shareholder of the Company, the disposal also constituted a connected transaction for the Company under the Listing Rules. The disposal was duly approved by independent shareholders of the Company on 21st June, 2002 and completed on 28th June, 2002.

The unused net proceeds of approximately HK\$27 million, which were raised by the Group under a placement of new ordinary shares in March 2000 and intended for the purpose of upgrading and decorating the studio of movie and TV production in the said Yuen Long property, have been transferred for use as general working capital of the Group following such disposal.

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, 2002	142
Add: Issue of 350,000,000 ordinary shares at the price of HK\$0.08 per share pursuant to the top-up placing completed in May 2002	27
Issue of 350,000,000 ordinary shares at the price of HK\$0.08 per share pursuant to the second placing completed in June 2002	27
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Adjusted unaudited proforma consolidated net asset value of the Group	196
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LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2002, net of pledged deposits, the Group had bank and cash balances of approximately HK\$28 million as compared to approximately HK\$69 million as at 31st March, 2001.

The Group's total borrowings as at 31st March, 2002 amounted to approximately HK\$321 million which mainly comprised bank borrowings of approximately HK\$148 million, loan from related companies of approximately HK\$70 million and a convertible note of HK\$100 million redeemable on 28th June, 2002 which was carried at a fixed interest rate. The Group's bank borrowings were mainly made in Hong Kong dollars with approximately HK\$40 million denominated in Japanese Yen. The Japanese Yen bank borrowings have been used to hedge a substantial part of the Group's foreign currency investment in Japan.

During the year under review, the Company placed 205 million new ordinary shares to private and institutional investors at a price of HK\$0.14 per share in May 2001 and raised net proceeds of approximately HK\$27 million for general working capital purpose. In July 2001, the Company further raised total net proceeds of approximately HK\$80 million for general working capital purpose through a private placement of 383 million new ordinary shares and the subscription of 67 million new ordinary shares by ITC, both at a subscription price of HK\$0.185 per share. Simultaneously, the convertible note redeemable on 2nd September, 2002 was converted by the noteholder into 270,270,270 ordinary shares of HK\$0.10 each at the adjusted conversion price of HK\$0.185 per share.

The Group's gearing ratio as at 31st March 2002 was 180% (2001: 45%), which is calculated on the basis of the Group's total interest bearing debts net of own cash reserves and short-term marketable securities over the total equity interest as at the reporting date. Following the completion of the top-up placing, second placing of new shares and disposal of Unicon as mentioned in the paragraph headed "Major Events Subsequent", the Group's gearing ratio has been reduced to 79%.

The Group operates a central cash management system for all its subsidiaries. Bank arrangement and long term borrowing requirements for all subsidiaries are monitored and approved at the holding company level. The Group continues to follow the practice of prudent cash management and, when necessary, will engage in currency hedging against exchange risks.

CONTINGENT LIABILITIES

The Group has no contingent liabilities at the balance sheet date.

PLEDGE OF ASSETS

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

EMPLOYEES

As at 31st March, 2002, the Company and its subsidiaries had around 450 employees (2001: 397). Employee remuneration, excluding directors' emoluments, for the year ended 31st March, 2002 was approximately HK\$70 million (2001: HK\$52 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.

APPRECIATION

On behalf of the board, I would like to take this opportunity to express my gratitude to the shareholders for their support, to the management, celebrity shareholders and staff for their contributions and dedicated efforts throughout this past year.

Tam Wing Lun, Alan
Chairman

Hong Kong, 12th July, 2002