

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs, which has resulted in the adoption of the following new/ revised accounting policies.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the six months ended 30th September, 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary, associate or jointly controlled entity and the date of adoption of SSAP 30 have been recognised retrospectively. The effect of this prior period adjustment is to increase the loss for the year ended 31st March, 2001 by HK\$252,895,000 (note 16) and the loss for the six months ended 30th September, 2000 by HK\$228,243,000. Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1st April, 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Changes in accounting estimates

In accordance with SSAP 31 "Impairment of assets" it has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than certain properties. Although in prior years the Group complied with the requirements of specific accounting standards in respect of impairment losses, the introduction of SSAP 31 has required a re-estimation of the recoverable amount of property, plant and equipment and intangible assets. Adoption of this SSAP has not had any significant effect on the results for the current or prior accounting periods.

3. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating results by principal activity is as follows:

	Movies, television dramas and documentary production, distribution and licensing income HK\$'000	Investment in marketable securities HK\$'000	Theme restaurant income HK\$'000	Interest income from provision of finance HK\$'000	Entertainment complexes and theme restaurant franchising income HK\$'000	Property income HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30th September, 2001:									
Turnover									
External	15,030	-	47,728	4,970	3,617	1,898	10,834	-	84,077
Inter-segment	-	-	-	6,652	2,687	-	-	(9,339)	-
	<u>15,030</u>	<u>-</u>	<u>47,728</u>	<u>11,622</u>	<u>6,304</u>	<u>1,898</u>	<u>10,834</u>	<u>(9,339)</u>	<u>84,077</u>
Operating results	<u>(20,968)</u>	<u>614</u>	<u>(42,175)</u>	<u>16,621</u>	<u>(5,009)</u>	<u>(30,266)</u>	<u>(13,917)</u>	<u>(6,652)</u>	(101,752)
Interest income, other than from loan receivables									2,073
Unallocated corporate expenses									(7,953)
Loss from operations									<u>(107,632)</u>
Six months ended 30th September, 2000:									
Turnover									
External	92,409	1,912	-	2,530	1,460	4,663	4,820	-	107,794
Inter-segment	-	-	-	8,779	-	-	-	(8,779)	-
	<u>92,409</u>	<u>1,912</u>	<u>-</u>	<u>11,309</u>	<u>1,460</u>	<u>4,663</u>	<u>4,820</u>	<u>(8,779)</u>	<u>107,794</u>
Operating results	<u>(14,737)</u>	<u>40,805</u>	<u>-</u>	<u>18,571</u>	<u>798</u>	<u>(10,015)</u>	<u>(3,633)</u>	<u>(8,779)</u>	23,010
Interest income, other than from loan receivables									11,088
Unallocated corporate expenses									(12,897)
Profit from operations									<u>21,201</u>

3. SEGMENTAL INFORMATION – Continued

An analysis of the Group's turnover and contribution to operating results by geographical market is as follows:

	Hong Kong HK\$'000	The People's Republic of China, other than Hong Kong HK\$'000	Singapore HK\$'000	Australia HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30th September, 2001:							
Turnover							
External	44,951	6,587	11,706	20,833	–	–	84,077
Inter-segment	–	–	2,687	–	–	(2,687)	–
	<u>44,951</u>	<u>6,587</u>	<u>14,393</u>	<u>20,833</u>	<u>–</u>	<u>(2,687)</u>	<u>84,077</u>
Operating results	<u>(68,000)</u>	<u>(6,911)</u>	<u>(11,228)</u>	<u>(12,930)</u>	<u>(2,683)</u>	<u>–</u>	<u>(101,752)</u>
Interest income, other than from loan receivables							2,073
Unallocated corporate expenses							<u>(7,953)</u>
Loss from operations							<u>(107,632)</u>
Six months ended 30th September, 2000:							
Turnover							
External	107,072	722	–	–	–	–	107,794
Inter-segment	–	–	–	–	–	–	–
	<u>107,072</u>	<u>722</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>107,794</u>
Operating results	<u>21,714</u>	<u>1,296</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>23,010</u>
Interest income, other than from loan receivables							11,088
Unallocated corporate expenses							<u>(12,897)</u>
Profit from operations							<u>21,201</u>

4. (LOSS) PROFIT FROM OPERATIONS

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

Depreciation	
Amortisation of goodwill and intangible assets	
Loss on disposal of property, plant and equipment	
Interest income, other than from loan receivables	

Six months ended
30th September,

2001 HK\$'000	2000 HK\$'000
4,034	1,184
282	70
158	734
<u>(2,073)</u>	<u>(11,088)</u>

5. FINANCE COSTS

	Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	751	1,489
Bank and other borrowings not wholly repayable within five years	<u>3,221</u>	<u>3,534</u>
	3,972	5,023
Convertible notes	<u>3,633</u>	<u>2,340</u>
	<u><u>7,605</u></u>	<u><u>7,363</u></u>

6. RESULT ON DILUTION OF INTEREST IN AN ASSOCIATE

The result on dilution of interest in an associate for the prior period represented the gain on the dilution of the Group's interest in STAREASTnet.com Corporation ("STAREASTnet.com") after the release of goodwill arising on acquisition of HK\$7 million previously written off against the Group's reserves.

7. TAXATION

	Six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
The charge (credit) comprises:		
Underprovision of Hong Kong Profits Tax of a subsidiary in previous periods	212	–
Overseas taxation of subsidiaries	34	–
Share of Hong Kong Profits Tax of associates	(13)	(9)
Share of overseas taxation of associates	–	40
	<u>233</u>	<u>31</u>

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group had no assessable profit for the period.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

8. LOSS PER ORDINARY SHARE

The calculation of the basic loss per ordinary share for the period is based on the following data:

	Six months ended 30th September,	
	2001 HK\$'000	2000 (as restated) HK\$'000
Loss:		
Net loss for the period	(227,025)	(237,180)
Less: Cumulative dividend for preference shares not yet declared	<u>(1,287)</u>	<u>(1,287)</u>
Loss attributable to ordinary shareholders for the purposes of basic loss per ordinary share	<u><u>(228,312)</u></u>	<u><u>(238,467)</u></u>
Number of ordinary shares:		
Weighted average number of ordinary shares in issue for the purposes of basic loss per ordinary share	<u><u>1,248,366,736</u></u>	<u><u>731,880,372</u></u>

No diluted loss per ordinary share has been calculated for either period as the exercise and conversion of the share options and the convertible notes would result in a decrease in the loss per ordinary share for both periods.

9. ADDITION OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs for the construction in progress in respect of a theme restaurant in Japan of approximately HK\$13 million and leasehold improvements of approximately HK\$5 million for a new theme restaurant in Shanghai.

10. LOANS AND INTEREST RECEIVABLES

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Loans and interest receivables	461,599	495,848
Less: Provision	<u>(421,120)</u>	<u>(426,743)</u>
	<u>40,479</u>	<u>69,105</u>

The Group allows its loan borrowers a repayment period normally ranging from 3 months to 1 year. The aged analysis of loan and interest receivables (net of provision) at the reporting date is as follows:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Current	37,479	33,497
0 – 6 months	–	32,608
Over 1 year	<u>3,000</u>	<u>3,000</u>
	<u>40,479</u>	<u>69,105</u>

The security for certain receivables is property interests pledged to the Group, shares of companies which are under common control of the borrowers pledged to the Group and personal guarantees from independent third parties. These receivables carry interest at the prevailing market rates.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows its trade customers a credit period normally ranging from 30 days to 60 days. Included in debtors, deposits and prepayments are trade debtors (net of allowance for bad and doubtful debts) with the following aged analysis:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Trade debtors:		
0 – 30 days	1,964	990
31 – 60 days	1,564	1,279
Over 60 days	<u>1,954</u>	<u>4,725</u>
	5,482	6,994
Other debtors, deposits and prepayments	<u>29,067</u>	<u>30,848</u>
	<u>34,549</u>	<u>37,842</u>

12. CREDITORS, ACCRUED CHARGES AND DEPOSITS

Included in creditors, accrued charges and deposits are trade creditors with the following aged analysis:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Trade creditors:		
0 – 30 days	13,676	12,563
31 – 60 days	3,927	7,615
Over 60 days	22,470	19,140
	<u>40,073</u>	<u>39,318</u>
Other creditors, accrued charges and deposits	67,516	67,328
	<u>107,589</u>	<u>106,646</u>

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank loans in the amount of HK\$16 million. The loans, which bear interest at 0.75% per annum over the applicable London Interbank Offered Rate, are repayable by instalments within 5 years. The loans were utilised to finance the theme restaurant operations in Japan.

14. CONVERTIBLE NOTES

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Star East Group Limited ("Star East Group") (note a)	–	50,000
Paul Y. – ITC Construction Holdings Limited ("Paul Y.") (note b)	100,000	100,000
	<u>100,000</u>	<u>150,000</u>
Less: Amount due within one year included under current liabilities	(100,000)	–
Amount due after one year	<u>–</u>	<u>150,000</u>

- (a) During the period, the Group entered into a conditional note amendment agreement with Star East Group, the holder of the HK\$50 million convertible note, to amend the conversion price of the convertible note from HK\$0.70 per share to HK\$0.185 per share. Upon the amendment agreement becoming unconditional on 16th July, 2001, Star East Group exercised the convertible rights to convert the convertible note into 270,270,270 ordinary shares of HK\$0.10 each at the conversion price of HK\$0.185 per share. The note bore interest at prevailing market rates.
- (b) The convertible note bears interest at 5% per annum and is redeemable on 28th June, 2002 unless it is previously converted or cancelled. The holder of the convertible note, a wholly-owned subsidiary of Paul Y., has the option to convert the convertible note into ordinary shares of the Company of HK\$0.10 each at an initial conversion price of HK\$1.68, subject to adjustment, at any time during the period from 28th June, 2000 up to 28th June, 2002.

15. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Preference shares of HK\$0.10 each		
– balance at 31st March, 2001 and 30th September, 2001	40,000,000	4,000
Ordinary shares of HK\$0.10 each		
– balance at 31st March, 2001 and 30th September, 2001	<u>5,000,000,000</u>	<u>500,000</u>
	<u>5,040,000,000</u>	<u>504,000</u>
Issued and fully paid:		
Preference shares of HK\$0.10 each		
– balance at 1st April, 2000, 31st March, 2001 and 30th September, 2001	<u>2,567,000</u>	<u>256</u>
Ordinary shares of HK\$0.10 each		
– balance at 1st April, 2000	747,737,781	74,774
– issue of new shares during the year	99,141,104	9,914
– repurchased during the year	<u>(20,774,000)</u>	<u>(2,077)</u>
– balance at 31st March, 2001 and 1st April, 2001	826,104,885	82,611
– placement of new shares during the period	588,000,000	58,800
– conversion of convertible note during the period	270,270,270	27,027
– subscription of new shares during the period	<u>67,000,000</u>	<u>6,700</u>
– balance at 30th September, 2001	<u>1,751,375,155</u>	<u>175,138</u>
Total at 30th September, 2001		<u>175,394</u>
Total at 31st March, 2001		<u>82,867</u>

16. RESERVES

	Share premium HK\$'000	Goodwill on consolidation HK\$'000	Exchange reserve HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1st April, 2000	1,852,380	(235,355)	–	556,707	(1,577,295)	596,437
Exchange realignment	–	–	860	–	–	860
Arising on acquisition of interest in an associate	–	(17,231)	–	–	–	(17,231)
Arising on acquisition of interest in a subsidiary	–	(7,421)	–	–	–	(7,421)
Realised on dilution of interest in an associate	–	7,112	–	–	–	7,112
Issue of shares for acquisition of interest in subsidiaries	30,734	–	–	–	–	30,734
Share of net reserve movements of jointly controlled entities	–	(1,641)	(266)	–	–	(1,907)
Share of net reserve movements of an associate	–	(353)	858	–	–	505
Shares issue expenses	(186)	–	–	–	–	(186)
Repurchase of ordinary shares	(16,008)	–	–	–	–	(16,008)
Net loss for the year	–	–	–	–	–	–
– as originally reported	–	–	–	–	(215,801)	(215,801)
– Impairment loss recognised in respect of goodwill (<i>note 2</i>)	–	252,895	–	–	(252,895)	–
	<u>1,866,920</u>	<u>(1,994)</u>	<u>1,452</u>	<u>556,707</u>	<u>(2,045,991)</u>	<u>377,094</u>
At 31st March, 2001 and 1st April, 2001 (as restated)	1,866,920	(1,994)	1,452	556,707	(2,045,991)	377,094
Exchange realignment	–	–	1,800	–	–	1,800
Issue of shares	69,423	–	–	–	–	69,423
Share of net reserve movements of jointly controlled entities	–	–	(1,026)	–	–	(1,026)
Share of net reserve movements of an associate	–	–	(2)	–	–	(2)
Shares issue expenses	(2,709)	–	–	–	–	(2,709)
Net loss for the period	–	–	–	–	(227,025)	(227,025)
	<u>1,933,634</u>	<u>(1,994)</u>	<u>2,224</u>	<u>556,707</u>	<u>(2,273,016)</u>	<u>217,555</u>
At 30th September, 2001	<u>1,933,634</u>	<u>(1,994)</u>	<u>2,224</u>	<u>556,707</u>	<u>(2,273,016)</u>	<u>217,555</u>

17. COMMITMENTS

At 30th September, 2001, the Group had capital commitments of approximately HK\$42,758,000 (31.3.2001: HK\$21,032,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements.

At 30th September, 2001, the Group had commitments of approximately HK\$750,000 (31.3.2001: Nil) in respect of the acquisition of additional 10% interests in an associate contracted for but not provided in the condensed financial statements.

At 31st March, 2001, the Group had entered into agreements to acquire 80% of the entire issued share capital of a joint stock company incorporated in Japan at a consideration of approximately HK\$900,000. The transaction was completed during the period. The further capital contribution agreed by the Group was replaced by a guarantee given by the Company to a bank for securing credit facilities granted to the aforesaid company.

18. CONTINGENT LIABILITIES

At 30th September, 2001, the Group has given guarantees to a bank in respect of credit facilities utilised by an associate amounting to approximately HK\$42 million (31.3.2001: HK\$18 million).

19. PLEDGE OF ASSETS

At 30th September, 2001, certain of the Group's property interests with an aggregate net book value of approximately HK\$41 million (31.3.2001: HK\$41 million) and a bank deposit of approximately HK\$16 million (31.3.2001: Nil) were pledged to banks to secure credit facilities for the Company and certain of its subsidiaries.

In addition to the above, at 30th September, 2001, another bank deposit of approximately HK\$7 million (31.3.2001: Nil) was pledged to a bank to secure credit facilities for an associate.

20. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

Name of parties	Nature of Transactions	Six months ended
		30th September, 2001 HK\$'000
Cycle Company Limited and Gunnell Properties Limited	Rental and building management expenses paid by the Group	1,787
Gold Picture Management Limited	Management service fee paid by the Group	620
Star East Group	Interest on convertible note paid by the Group	1,126
Star East Multimedia Limited	Licensing income received by the Group	4,000
Star East Website Limited	Licence fee income received by the Group	400
STAREASTnet.com	Interest income received by the Group	821
Trend Cheer Limited	Interest on convertible note paid by the Group	<u>2,507</u>

As explained in note 14(a), during the current period, Star East Group, converted the convertible note of HK\$50 million into 270,270,270 ordinary shares of HK\$0.10 each at the conversion price of HK\$0.185 per share.

In addition, during the current period, ITC Corporation Limited ("ITC"), a substantial shareholder of the Company, subscribed for an aggregate of 67,000,000 ordinary shares of HK\$0.10 each at a subscription price of HK\$0.185 per share.

Cycle Company Limited, Gunnell Properties Limited and Trend Cheer Limited are wholly-owned subsidiaries of Paul Y. which is an associate of a substantial shareholder of the Company.

Gold Picture Management Limited is a shareholder of Star East Group. Star East Group is an associate of ITC.

Star East Multimedia Limited and Star East Website Limited are wholly-owned subsidiaries of STAREASTnet.com, an associate of the Group.

Interest on the convertible notes was paid by the Company according to the interest rate stipulated in the respective convertible note. In the opinion of the directors, the other transactions disclosed above were entered into on terms determined and agreed by the Group and the relevant parties.

21. POST BALANCE SHEET EVENTS

The following significant events have occurred subsequent to the balance sheet date:

- (a) On 24th September, 2001, Expert Solution Limited ("Expert Solution"), in which the Group has 35% interest, entered into a conditional sale and purchase agreement (the "Disposal Agreement") with STAREASTnet.com to dispose the entire issued share capital of and the shareholders' loan of approximately HK\$210 million due from Activater Resources Limited at a total consideration of HK\$210 million. The consideration was satisfied as to HK\$50 million in cash and HK\$160 million by the issue of 1,600 million new shares in STAREASTnet.com at HK\$0.10 per share. The transaction was completed on 4th December, 2001.

Upon the completion of the Disposal Agreement, 560 million new shares in STAREASTnet.com were issued to the Group as directed by Expert Solution. Together with the subscription of 302,535,000 shares through the rights issue of STAREASTnet.com which was completed on 29th November, 2001, the Group's interest in STAREASTnet.com increased from 19.67% to 25.56%.

- (b) Planet Hollywood Hong Kong Limited, a non wholly-owned subsidiary of the Group, closed its theme restaurant in Hong Kong in December 2001.

- (c) PH (Sydney) Pty. Limited, a wholly-owned subsidiary of the Group, was placed under administration in November 2001.