

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). At 31st March, 2004, its ultimate holding company was Strategic Media International Limited ("SMI") which is incorporated in the British Virgin Islands. As explained in note 46, SMI ceased to be the ultimate holding company to the Company after the issue of the new shares of the Company to other independent third parties in May 2004.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 44.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" under the Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit with limited exceptions. In the absence of any specific transitional requirement in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries, associates and jointly controlled entities, acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

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 the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible assets.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves, or previously capitalised and amortised, is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Negative goodwill

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions after 1st April, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstance from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been amortised and less the negative goodwill arising on acquisition in so far as it has not already been released to income and any identified impairment loss.

Joint ventures

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the relevant jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Other joint venture arrangements

Investments made by means of joint venture structures which do not result in the Group having joint control with the other venturers are accounted for as subsidiaries (where the Group controls the board of directors or equivalent governing body), associates (where the Group is in a position to exercise significant influence) or dealt with as investments in securities (where the Group exercises neither control nor significant influence).

Revenue recognition

Revenue from movies and television dramas produced for third parties is recognised as income when the relevant production is completed and released.

Income from movies, television dramas and documentary distribution is recognised when the movies, television dramas and documentary production is completed, released and the amount can be measured reliably.

Revenue from the operations of the entertainment complex, including theme restaurants, is recognised when the services are rendered to customers.

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Non-refundable fixed franchise income is recognised when the right to use the Group's trademark has been assigned to the franchisee. Other franchise income is recognised on an accrual basis in accordance with the terms of the relevant franchising agreement and when the Group's entitlement to payments has been established.

Sales of goods are recognised when goods are delivered and title has passed.

Services income is recognised when the services are rendered.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Sales of investments in securities are recognised when the sales contract becomes unconditional.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is transferred to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2% or the term of the lease, if shorter
Leasehold improvements	20% or the term of the lease, if shorter
Furniture and equipment	20% to 33 ¹ / ₃ %
Motor vehicles	20%
Operating equipment	20%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Properties held for resale

Properties held for resale are stated at the lower of cost and net realisable value.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Work in progress represents movie, television drama and documentary production still in progress and is stated at production costs incurred to date, less foreseeable losses and applicable royalty income and progress payments received and receivable.

Production costs are carried forward as work in progress and are transferred to film stocks upon completion and released. Film stocks are amortised over the period of the expected total income being generated from film distribution. Fully amortised film stocks are carried forward at HK\$100 each.

Intangible assets

Intangible asset is stated at cost less amortisation and any identified impairment loss. The cost of the intangible asset is amortised over the estimated useful life of the intangible asset on a straight line basis.

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit or loss for the year.

On consolidation, the assets and liabilities of the subsidiaries, associates and jointly controlled entities which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operations is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Retirement Benefit Scheme

Payment to defined contribution retirement benefit plan are charged as an expenses as they fall due.

For the year ended 31st March, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into seven major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and operating results and segment assets and liabilities by business segments 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	Property income HK\$'000	Entertainment complexes and theme restaurant franchising income HK\$'000	Music production HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2004										
TURNOVER										
External	7,402	13,072	55,242	4,023	18,569	2,149	1,250	4,107	-	105,814
Inter-segment *	1,500	-	-	10,413	-	734	307	1,020	(13,974)	-
Total revenue	<u>8,902</u>	<u>13,072</u>	<u>55,242</u>	<u>14,436</u>	<u>18,569</u>	<u>2,883</u>	<u>1,557</u>	<u>5,127</u>	<u>(13,974)</u>	<u>105,814</u>
RESULT										
Segment result	<u>126</u>	<u>(14,172)</u>	<u>(18,024)</u>	<u>27,935</u>	<u>12,337</u>	<u>632</u>	<u>(7,873)</u>	<u>(7,589)</u>	<u>(10,414)</u>	<u>(17,042)</u>
Interest income, other than loans receivable										1,505
Unallocated corporate expenses										(15,836)
Loss from operations										(31,373)
Finance costs										(7,087)
Impairment loss recognised in respect of investments in securities		(12,001)								(12,001)
Recovery on settlement of investments in debt securities		33,323								33,323
Impairment loss recognised in respect of deposit paid on acquisition of an investment								(20,000)		(20,000)
Gain on dilution and disposal of interest in subsidiaries										26,502
Loss on disposal of interest in associates										(2,203)
Loss on disposal of interest in a jointly controlled entity										(1,914)
Allowance for amounts due from associates										(362)
Recovery of amounts due from jointly controlled entities										2,689
Share of results of jointly controlled entities										(2,424)
Share of results of associates										752
Loss before taxation										(14,098)
Taxation										(480)
Loss before minority interests										(14,578)
Minority interests										94
Net loss for the year										<u>(14,484)</u>

For the year ended 31st March, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	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	Property income HK\$'000	Entertainment complexes and theme restaurant franchising income HK\$'000	Music production HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
At 31st March, 2004										
ASSETS										
Segment assets	62,973	29,563	48,967	47,510	89,375	1,279	772	24,157	-	304,596
Interests in associates										43,542
Interests in jointly controlled entities										17,391
Unallocated corporate assets										62,842
Consolidated total assets										<u>428,371</u>
LIABILITIES										
Segment liabilities	14,176	4,386	17,462	247	11,311	32	1,926	9,279	-	58,819
Unallocated corporate liabilities										196,361
Consolidated total liabilities										<u>255,180</u>
OTHER INFORMATION										
For the year ended 31st March, 2004										
Capital additions	42	-	1,264	-	-	-	11	435	-	1,752
Depreciation and amortisation	29	-	13,485	-	125	-	19	1,948	-	15,606
Impairment losses recognised	-	12,001	5,548	-	-	-	-	20,000	-	37,549
Other non-cash expenses	-	11,727	-	-	-	-	-	3,889	-	15,616

* Inter-segment sales are charged at terms determined and agreed between group companies.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	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	Property income HK\$'000	Entertainment complexes and theme restaurant franchising income HK\$'000	Music production HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
For the year ended 31st March, 2003										
TURNOVER										
External	12,426	15,676	60,372	676	28,553	8,670	6,981	6,559	-	139,913
Inter-segment *	-	-	-	16,027	-	984	407	1,520	(18,938)	-
Total revenue	<u>12,426</u>	<u>15,676</u>	<u>60,372</u>	<u>16,703</u>	<u>28,553</u>	<u>9,654</u>	<u>7,388</u>	<u>8,079</u>	<u>(18,938)</u>	<u>139,913</u>
RESULT										
Segment result	<u>1,713</u>	<u>836</u>	<u>(12,106)</u>	<u>17,041</u>	<u>4,724</u>	<u>1,932</u>	<u>(13,456)</u>	<u>(3,236)</u>	<u>(16,027)</u>	<u>(18,579)</u>
Interest income, other than loans receivable										2,251
Unallocated corporate expenses										(19,029)
Loss from operations										(35,357)
Finance costs										(9,545)
Impairment losses recognised in respect of investments in securities		(26,824)								(26,824)
Gain on deconsolidation and disposal of interest in subsidiaries										17,107
Loss on dilution and disposal of interest in an associate										(9,231)
Allowance for amounts due from associates										(13,760)
Allowance for amounts due from jointly controlled entities										(1,144)
Share of results of jointly controlled entities										(17,380)
Share of results of associates										(33,020)
Loss before taxation										(129,154)
Taxation										(1,356)
Loss before minority interests										(130,510)
Minority interests										101
Net loss for the year										<u>(130,409)</u>

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	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	Property income HK\$'000	Entertainment complexes and theme restaurant franchising income HK\$'000	Music production HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
At 31st March, 2003										
ASSETS										
Segment assets	3,252	30,434	45,155	35,868	91,549	1,960	2,737	45,392	-	256,347
Interests in associates										35,148
Interests in jointly controlled entities										39,564
Unallocated corporate assets										46,032
Consolidated total assets										<u>377,091</u>
LIABILITIES										
Segment liabilities	11,109	71	14,235	229	11,844	11,880	5,921	8,613	-	63,902
Unallocated corporate liabilities										254,949
Consolidated total liabilities										<u>318,851</u>
OTHER INFORMATION										
For the year ended 31st March, 2003										
Capital additions	270	-	1,410	-	-	199	73	1,261	-	3,213
Depreciation and amortisation	132	-	11,432	-	238	679	67	2,893	-	15,441
Impairment losses recognised	-	26,824	-	-	1,403	-	-	-	-	28,227
Other non-cash expenses	-	52	-	-	2,100	-	-	15,786	-	17,938

* Inter-segment sales are charged at terms determined and agreed between group companies.

For the year ended 31st March, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are mainly located in Hong Kong, Singapore, the People's Republic of China, other than Hong Kong (the "PRC") and Japan.

The following provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	30,235	61,574
Singapore	1,882	8,041
The PRC	33,972	27,468
Japan	39,590	38,995
Others	135	3,835
	<u>105,814</u>	<u>139,913</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	341,833	222,732	488	1,733
Singapore	-	1,579	-	-
The PRC	56,451	116,358	1,085	1,185
Japan	30,087	34,609	179	225
Others	-	1,813	-	70
	<u>428,371</u>	<u>377,091</u>	<u>1,752</u>	<u>3,213</u>

For the year ended 31st March, 2004

5. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– directors' remuneration (<i>note 6</i>)	3,732	2,622
– other staff costs	29,990	42,870
– retirement benefit scheme contributions, excluding directors	445	490
	<u>34,167</u>	<u>45,982</u>
Auditors' remuneration		
– current year	1,354	1,307
– under(over)provision in prior years	761	(190)
Depreciation	14,855	14,173
Amortisation (included in administrative expenses) of:		
– goodwill	–	275
– intangible assets	751	993
Loss on disposals of property, plant and equipment	974	268
and after crediting:		
(Loss) gain on disposal of other investments	(903)	3,179
Interest income, other than from loans receivable	1,505	2,251
Property rental income, net of outgoings of HK\$1,200,000 (2003: HK\$508,000)	701	3,249
	<u><u>701</u></u>	<u><u>3,249</u></u>

6. DIRECTORS' REMUNERATION

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	–	–
Non-executive	–	–
Independent non-executive	240	240
	<u>240</u>	<u>240</u>
Other emoluments:		
Executive		
Salaries and other benefits	3,480	2,370
Retirement benefit scheme contributions	12	12
	<u>3,492</u>	<u>2,382</u>
Total directors' emoluments	<u><u>3,732</u></u>	<u><u>2,622</u></u>

For the year ended 31st March, 2004

6. DIRECTORS' REMUNERATION (continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	20	14
HK\$1,500,001 to HK\$2,000,000	-	-
HK\$2,000,001 to HK\$2,500,000	-	1
HK\$2,500,001 to HK\$3,000,000	1	-
	<u>21</u>	<u>15</u>

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

7. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included two directors (2003: one director) of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining highest paid individuals attributable to the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,933	3,505
Retirement benefit scheme contributions	36	48
	<u>1,969</u>	<u>3,553</u>

The emoluments of the individuals were within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	-	2
	<u>3</u>	<u>4</u>

8. FINANCE COSTS

Interest on:

	2004 HK\$'000	2003 HK\$'000
Bank and other borrowings wholly repayable within five years	6,738	7,973
Bank and other borrowings not wholly repayable within five years	349	353
	<u>7,087</u>	<u>8,326</u>
Convertible note	-	1,219
	<u>7,087</u>	<u>9,545</u>

For the year ended 31st March, 2004

9. GAIN ON DECONSOLIDATION, DILUTION AND DISPOSAL OF INTEREST IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Gain on deconsolidation of subsidiaries	-	12,814
Gain on dilution and disposal of interest in subsidiaries	26,502	4,293
	<u>26,502</u>	<u>17,107</u>

10. LOSS ON DILUTION AND DISPOSAL OF INTEREST IN ASSOCIATES

	2004 HK\$'000	2003 HK\$'000
Loss on disposal of interest in associates	(2,203)	-
Loss on dilution and disposal of interest in an associate (<i>note</i>):		
– Gain on dilution and disposal of interest in Leadership Publishing Group Limited (“Leadership Publishing”) after release of negative goodwill of HK\$11,248,000	-	6,229
– Amount due from Leadership Publishing written off	-	(15,460)
	<u>(2,203)</u>	<u>(9,231)</u>

Note: The loss on dilution and disposal of interest in an associate for the year ended 31st March, 2003 represented the loss on the dilution of the Group’s interest in Leadership Publishing after the rights issue arrangement underwent by Leadership Publishing in September 2002 and the subsequent disposal of the Group’s interest in Leadership Publishing in January 2003. Details of these are set out in note 19.

11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax of the Company and its subsidiaries:		
Current year	-	-
Overprovision in previous year	-	(50)
Overseas taxation of subsidiaries	480	1,406
	<u>480</u>	<u>1,356</u>

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

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

11. TAXATION (continued)

The charge for the year can be reconciled to the loss before taxation per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(14,098)</u>	<u>(129,154)</u>
Tax at the domestic income tax rate of 17.5% (2003: 16%)	(2,467)	(20,665)
Tax effect of expenses that are not deductible in determining taxable profit	14,542	17,927
Tax effect of income that are not taxable in determining taxable profit	(13,938)	(3,998)
Tax effect of overprovision in previous year	-	(50)
Tax effect of deferred tax assets not recognised	419	591
Tax effect of tax losses previously not recognised	5,884	6,738
Utilisation of tax losses previously not recognised	(4,273)	-
Effect of different tax rates of operations in other jurisdictions	<u>313</u>	<u>813</u>
Tax expense for the year	<u>480</u>	<u>1,356</u>

At 31st March, 2004, the Group has unused tax losses of approximately HK\$938 million (2003: HK\$1,055 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

12. LOSS PER ORDINARY SHARE

The calculation of the basic loss per ordinary share for the year is based on the net loss for the year of HK\$14,484,000 (2003: HK\$130,409,000) and on weighted average of 4,307,112,859 (2003: 2,326,717,621) ordinary shares in issue during the year.

During the year ended 31st March, 2004, no diluted loss per ordinary share was presented as the exercise of the share options would result in a decrease in the loss per ordinary share.

During the year ended 31st March, 2003, no diluted loss per ordinary share was presented because the exercise price of the Company's share option was higher than the average market price for shares.

For the year ended 31st March, 2004

13. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st April, 2003	30,500
Surplus arising on revaluation	<u>17,700</u>
At 31st March, 2004	<u><u>48,200</u></u>

The Group's investment properties were revalued at 31st March, 2004 by Larry H.C. Tam & Associates Ltd., an independent firm of professional property valuers, on an open market value basis. The surplus arising on revaluation has been credited to the income statement.

The Group's investment properties are held for rental under operating leases and are held under medium-term leases in Hong Kong.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Operating equipment HK\$'000	Total HK\$'000
THE GROUP COST						
At 1st April, 2003	1,580	49,538	13,267	1,457	6,319	72,161
Exchange realignment	-	4,952	108	-	330	5,390
Additions	-	1,035	504	44	21	1,604
Disposal of subsidiaries	-	(139)	(1,615)	-	-	(1,754)
Disposals	<u>(1,580)</u>	<u>(830)</u>	<u>(1)</u>	<u>-</u>	<u>(1,507)</u>	<u>(3,918)</u>
At 31st March, 2004	<u>-</u>	<u>54,556</u>	<u>12,263</u>	<u>1,501</u>	<u>5,163</u>	<u>73,483</u>
DEPRECIATION AND IMPAIRMENT LOSS						
At 1st April, 2003	79	17,829	9,327	532	2,874	30,641
Exchange realignment	-	1,731	69	-	116	1,916
Provided for the year	16	12,413	1,376	270	780	14,855
Eliminated on disposal of subsidiaries	-	(29)	(1,354)	-	-	(1,383)
Eliminated on disposals	<u>(95)</u>	<u>(374)</u>	<u>(191)</u>	<u>-</u>	<u>(1,166)</u>	<u>(1,826)</u>
At 31st March, 2004	<u>-</u>	<u>31,570</u>	<u>9,227</u>	<u>802</u>	<u>2,604</u>	<u>44,203</u>
NET BOOK VALUES						
At 31st March, 2004	<u><u>-</u></u>	<u><u>22,986</u></u>	<u><u>3,036</u></u>	<u><u>699</u></u>	<u><u>2,559</u></u>	<u><u>29,280</u></u>
At 31st March, 2003	<u><u>1,501</u></u>	<u><u>31,709</u></u>	<u><u>3,940</u></u>	<u><u>925</u></u>	<u><u>3,445</u></u>	<u><u>41,520</u></u>

At 31st March, 2003, the land and buildings of the Group were held under long-term land use rights in the PRC.

For the year ended 31st March, 2004

15. INTANGIBLE ASSETS

	Franchise right <i>HK\$'000</i>	Trademark <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At 1st April, 2003	15,606	3,355	477	19,438
Exchange realignment	-	-	27	27
Additions	-	148	-	148
	<u>15,606</u>	<u>3,503</u>	<u>504</u>	<u>19,613</u>
At 31st March, 2004	<u>15,606</u>	<u>3,503</u>	<u>504</u>	<u>19,613</u>
AMORTISATION AND IMPAIRMENT LOSS				
At 1st April, 2003	15,606	1,738	398	17,742
Exchange realignment	-	-	11	11
Provided for the year	-	716	35	751
	<u>15,606</u>	<u>2,454</u>	<u>444</u>	<u>18,504</u>
At 31st March, 2004	<u>15,606</u>	<u>2,454</u>	<u>444</u>	<u>18,504</u>
NET BOOK VALUES				
At 31st March, 2004	<u>-</u>	<u>1,049</u>	<u>60</u>	<u>1,109</u>
At 31st March, 2003	<u>-</u>	<u>1,617</u>	<u>79</u>	<u>1,696</u>
				<i>Trademark HK\$'000</i>
THE COMPANY				
COST				
At 1st April, 2003 and at 31st March, 2004				<u>120</u>
AMORTISATION				
At 1st April, 2003				66
Provided for the year				<u>24</u>
At 31st March, 2004				<u>90</u>
NET BOOK VALUES				
At 31st March, 2004				<u><u>30</u></u>
At 31st March, 2003				<u><u>54</u></u>

For the year ended 31st March, 2004

15. INTANGIBLE ASSETS (continued)

Trademark of the Group and the Company represents initial fees paid for the registration of the trademark in the respective country/place of registration.

Franchise right of the Group represents the cost incurred for obtaining the right to operate the theme restaurant in Japan.

Other intangible assets of the Group were acquired from third parties.

Intangible assets are amortised over the following periods on a straight line basis:

Franchise right	20 years
Trademark	5 years
Others	5 years

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	453,591	453,591
Less: Impairment losses recognised	(424,514)	(424,514)
	<u>29,077</u>	<u>29,077</u>
Amounts due from subsidiaries	2,160,826	2,036,113
Less: Allowances	(2,064,575)	(1,966,212)
	<u>96,251</u>	<u>69,901</u>
	<u><u>125,328</u></u>	<u><u>98,978</u></u>

At 31st March, 2004, included in the amounts due from subsidiaries are amounts of HK\$55,976,000 (2003: HK\$110,994,000) carried interest at prevailing market value. All the other amounts are unsecured, interest-free and have no fixed repayment terms.

Details of the Company's principal subsidiaries at 31st March, 2004 are set out in note 44.

The amount due to a subsidiary is unsecured, interest-free and is repayable on demand.

For the year ended 31st March, 2004

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	3,939	31,514
Amounts due from jointly controlled entities, less allowances	<u>13,452</u>	<u>8,050</u>
	<u><u>17,391</u></u>	<u><u>39,564</u></u>

Details of the Group's principal jointly controlled entity which is held indirectly by the Company at 31st March, 2004 is as follows:

Name of jointly controlled entity	Place of incorporation	Attributable proportion of nominal value of issued capital	Principal activity
Earn Elite Development Limited	Hong Kong	50%	Property investment

The above jointly controlled entity is a limited company incorporated in Hong Kong.

At 31st March, 2004, included in the amounts due from jointly controlled entities is an amount of HK\$9,500,000 (2003: HK\$4,750,000) due from Earn Elite Development Limited, which carried interest at prevailing market rate. The remaining balances are unsecured, interest-free and have no fixed repayment terms.

During the year ended 31st March, 2004, the Group disposed of its 50% interest in StarEastWorks Limited ("SEW") at a consideration of approximately HK\$1,000 and a loss of HK\$1,914,000 was resulted.

The above table lists the jointly controlled entity of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

For the year ended 31st March, 2004

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	9,170	8,833
Negative goodwill		
At 1st April	(1,805)	(14,060)
Arising from acquisition of associates	-	(2,098)
Realised upon dilution and disposal of interest in associates	-	11,248
Release of negative goodwill	1,049	3,105
	(756)	(1,805)
Goodwill		
At 1st April	2,644	-
Arising from acquisition of an associate	-	3,172
Less: Amortisation	(634)	(528)
	2,010	2,644
Amounts due from associates, less allowances	10,424 26,643	9,672 25,476
	37,067	35,148
Market value of listed associates	7,423	11,991

18. INTERESTS IN ASSOCIATES (continued)

Details of the Group's principal associates which are held indirectly by the Company at 31st March, 2004 are as follows:

Name of associate	Place of incorporation	Attributable proportion of nominal value of issued capital	Principal activity
Applause Holdings Limited ("Applause")	British Virgin Islands	40%	Movie production and distribution
M Channel Corporation Limited ("M Channel")	Bermuda	26.91%	Out-of-home audio and video media business

The above associates are limited companies incorporated in their respective jurisdictions.

The amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

Goodwill is amortised on a straight-line basis and the amortisation period is 5 years. Negative goodwill is released on a straight-line basis over the remaining useful life of the identifiable acquired depreciable/amortised assets.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Extracts from the audited financial statements of M Channel, the Group's major associate, are set out in note 45.

19. CONSIDERATION RECEIVABLE ON DISPOSAL OF INTEREST IN AN ASSOCIATE

In September 2002, following the rights issue arrangement underwent by Leadership Publishing, the shareholding held by the Group was diluted from 25.56% to 18.56%. In November 2002, the Company entered into a conditional sale and purchase agreement with Sun Media Group Holdings Limited ("Sun Media"), an independent third party, for the disposal of 86,961,250 ordinary shares of Leadership Publishing and an aggregate amount of HK\$15,126,750 warrants of Leadership Publishing to Sun Media together with the shareholder's loans of HK\$37,576,000 due by Leadership Publishing to the Group.

The consideration was satisfied by Sun Media by (i) issuing 521,767,500 new ordinary shares in Sun Media for the shares in Leadership Publishing held by the Group; (ii) HK\$1.00 for the total amount of warrants; and (iii) issuing 146,992,000 new ordinary shares in Sun Media at a price of HK\$0.10 per share at the expiry of two calendar years from the date of completion for the shareholder's loan of HK\$14,699,000 (the "Consideration Receivable").

Pursuant to the above agreement, the remaining balances of shareholder's loan of HK\$15,460,000 and HK\$7,417,000 were (i) waived by the Company; and (ii) due and payable upon the expiry of 30 calendar months after the year end of the financial year of Leadership Publishing in respect of which Leadership Publishing declares a profit after taxation in its audited financial statements, respectively.

The transaction was completed in January 2003 and a loss on dilution and disposal of the Group's interest in Leadership Publishing of approximately HK\$9,231,000 arose after the release of the relevant negative goodwill of HK\$11,248,000.

At 31st March, 2004, the Consideration Receivable, after allowances, from Sun Media stated in the balance sheet of the Group and the Company was HK\$4,410,000 (2003: HK\$7,937,000).

For the year ended 31st March, 2004

20. INVESTMENTS IN SECURITIES

	THE GROUP					
	Investment securities		Other investments		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities:						
Listed – Hong Kong	-	28,175	24,774	789	24,774	28,964
Listed – Overseas	-	-	-	9	-	9
Unlisted	8,297	-	-	-	8,297	-
	<u>8,297</u>	<u>28,175</u>	<u>24,774</u>	<u>798</u>	<u>33,071</u>	<u>28,973</u>
Debt securities:						
Unlisted	-	-	-	1,760	-	1,760
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,760</u>	<u>-</u>	<u>1,760</u>
Classified under						
Current	-	-	24,774	798	24,774	798
Non-current	8,297	28,175	-	1,760	8,297	29,935
	<u>8,297</u>	<u>28,175</u>	<u>24,774</u>	<u>2,558</u>	<u>33,071</u>	<u>30,733</u>
Market value of listed securities	-	28,175	24,774	798	24,774	28,973
	<u>-</u>	<u>28,175</u>	<u>24,774</u>	<u>798</u>	<u>24,774</u>	<u>28,973</u>

The carrying value of the unlisted equity securities at 31st March, 2004 represents investment in Alfaway International Limited (“Alfaway”), a company incorporated in Hong Kong. During the year ended 31st March, 2004, the Group acquired 17.5% interest in Alfaway through the acquisition of its immediate holding company from SEW.

The carrying value of the unlisted debt securities at 31st March, 2003 represented investment of convertible bonds (“G-Prop Bonds”) issued by G-Prop (Holdings) Limited, a company listed on the Stock Exchange. The G-Prop Bonds were non-interest bearing and redeemable in 2004. According to the restructuring plan undertaken by G-Prop (Holdings) Limited in January 2004, the Group converted the G-Prop bonds to 87,860,212 ordinary shares of G-Prop (Holdings) Limited with the value of HK\$50,959,000 with reference to the closing price at the date of conversion. Subsequently, 66,053,283 shares of G-Prop (Holdings) Limited were disposed of by the Group at an aggregate consideration of HK\$21,555,000. At 31st March, 2004, the remaining ordinary shares of G-Prop (Holdings) Limited held by the Group were stated at HK\$6,215,000 with reference to the closing market price at that date.

21. PROPERTIES HELD FOR RESALE

The Group's properties held for resale are carried at net realisable values.

For the year ended 31st March, 2004

22. INVENTORIES

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Goods held for resale	634	899
Food and beverage	533	568
Film stocks	9,414	–
Work in progress	12,029	2,815
	<u>22,610</u>	<u>4,282</u>

Included above are goods held for resale of HK\$634,000 (2003: HK\$118,000) carried at net realisable values.

At 31st March, 2003, work in progress of HK\$1,580,000 carried at net realisable value.

23. LOANS AND INTEREST RECEIVABLES

	THE GROUP		THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loans and interest receivables	463,602	463,634	10,115	10,426
Less: Allowances	(420,660)	(435,711)	–	(997)
	<u>42,942</u>	<u>27,923</u>	<u>10,115</u>	<u>9,429</u>

	THE GROUP		THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loans and interest receivables	42,942	27,923	10,115	9,429
Less: Amount due within one year included under current assets	(30,334)	(20,506)	(5,472)	(5,006)
Amounts due after one year	<u>12,608</u>	<u>7,417</u>	<u>4,643</u>	<u>4,423</u>

Included in the loans and interest receivables of the Group and the Company are loans and interest receivables due from Leadership Publishing of HK\$7,785,000 (2003: HK\$7,417,000) and HK\$4,643,000 (2003: HK\$4,423,000), respectively, which are unsecured, bear interest at prevailing market rates and will not be repayable within one year from the balance sheet date. Detail of these are set out in note 19.

For the year ended 31st March, 2004

23. LOANS AND INTEREST RECEIVABLES (continued)

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

	2004 HK\$'000	2003 HK\$'000
Current	39,942	24,923
6-12 months	–	–
Over 1 year	3,000	3,000
	<u>42,942</u>	<u>27,923</u>

Certain receivables were secured by property interests, shares of companies which are under common control of the borrowers and personal guarantees from independent third parties. These receivables carry interest at prevailing market rates.

24. 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 allowances for bad and doubtful debts) with the following aged analysis:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade debtors:		
0 – 30 days	2,404	2,439
31 – 60 days	202	253
> 60 days	931	3,012
	<u>3,537</u>	<u>5,704</u>
Other debtors, deposits and prepayments	42,342	16,805
	<u>45,879</u>	<u>22,509</u>

25. AMOUNT DUE FROM A RELATED COMPANY

The amount represents the balance due from SMI which is unsecured, interest-free and is repayable on demand.

26. AMOUNTS DUE FROM/TO ASSOCIATES/A JOINTLY CONTROLLED ENTITY

At 31st March, 2004, included in the amounts due from associates is an amount of HK\$6,414,000 (2003: nil) due from M Channel, which carried interest at prevailing market rate and is repayable within one year from the balance sheet date. The remaining balances are unsecured, interest-free and are repayable on demand.

The amounts due to associates are unsecured, interest-free and was fully repaid during the year.

The amount due to a jointly controlled entity was unsecured, interest-free and was fully repaid during the year.

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27. CREDITORS, ACCRUED CHARGES AND DEPOSITS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade creditors:		
0 – 30 days	3,645	2,249
31 – 60 days	6,559	1,516
> 60 days	<u>10,286</u>	<u>22,186</u>
Other creditors, accrued charges and deposits	20,490	25,951
	<u>48,466</u>	<u>45,432</u>
	<u><u>68,956</u></u>	<u><u>71,383</u></u>

28. PROVISION FOR RESTRUCTURING COSTS

	THE GROUP HK\$'000
At 1st April, 2003	3,267
Utilised during the year	(1,632)
Disposal of subsidiaries	<u>(1,635)</u>
At 31st March, 2004	<u><u>-</u></u>

The provision for restructuring costs represented costs provided in respect of the closure of certain theme restaurants.

For the year ended 31st March, 2004

29. AMOUNTS DUE TO RELATED COMPANIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Gold Picture Management Limited (<i>note i</i>)	3,930	2,180
Cycle Company Limited & Gunnell Properties Limited (<i>note ii</i>)	-	1,974
Paul Y. – ITC Management Limited (“Paul Y. Management”) (<i>note ii</i>)	-	1,973
Konyear Limited (<i>note ii</i>)	-	616
Hanny Magnetics Limited (<i>note ii</i>)	-	289
ITC Management Limited (“ITC Management”) (<i>note ii</i>)	-	68
Paul Y. Building Management Limited (<i>note ii</i>)	-	44
Star East Starmate Limited (<i>note iii</i>)	-	9
	<u>3,930</u>	<u>7,153</u>

Notes:

- (i) Gold Picture Management Limited is a company in which certain directors of the Company have beneficial interests.
- (ii) These companies are subsidiaries/subsidiary of an associate of ITC Corporation Limited (“ITC”), a former substantial shareholder of the Company. As ITC ceased to be a substantial shareholder of the Company in February 2004, the balances with these companies were reclassified as other creditors at 31st March, 2004 accordingly.
- (iii) Star East Starmate Limited is a wholly owned subsidiary of Star East Group Limited. Star East Group Limited is a subsidiary of Gold Picture Management Limited.

All the above amounts are unsecured, interest-free and repayable on demand.

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30. LOANS FROM RELATED COMPANIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
ITC Management	-	53,686
Paul Y. Management	-	25,054
	<u>-</u>	<u>78,740</u>

These companies are subsidiaries of ITC, a former substantial shareholder of the Company. As ITC ceased to be the substantial shareholder of the Company in February 2004, the loans from these companies were reclassified as other borrowings at 31st March, 2004.

The amounts were unsecured, bear interest at prevailing market rates and were repayable within one year.

31. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans	136,988	149,149	84,000	96,000
Other loans	41,584	1,499	-	-
	<u>178,572</u>	<u>150,648</u>	<u>84,000</u>	<u>96,000</u>
Analysed as				
- secured	122,850	135,012	84,000	96,000
- unsecured	55,722	15,636	-	-
	<u>178,572</u>	<u>150,648</u>	<u>84,000</u>	<u>96,000</u>
Repayable as follows:				
Within one year	73,272	32,512	12,000	12,000
Between one to two years	17,550	16,877	12,000	12,000
Between two to five years	80,350	88,255	60,000	72,000
Over five years	7,400	13,004	-	-
	<u>178,572</u>	<u>150,648</u>	<u>84,000</u>	<u>96,000</u>
Less: Amount due within one year included under current liabilities	<u>(73,272)</u>	<u>(32,512)</u>	<u>(12,000)</u>	<u>(12,000)</u>
Amount due after one year	<u>105,300</u>	<u>118,136</u>	<u>72,000</u>	<u>84,000</u>

For the year ended 31st March, 2004

32. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Preference shares of HK\$0.10 each at 1st April, 2002	40,000,000	4,000
Cancellation during the year	(40,000,000)	(4,000)
At 31st March, 2003 and 2004	<u>–</u>	<u>–</u>
Ordinary shares of HK\$0.10 each at 1st April, 2002	5,000,000,000	500,000
Reduction of share capital	–	(475,000)
Cancellation during the year	(3,248,624,845)	(16,243)
Increase during the year	<u>8,248,624,845</u>	<u>41,243</u>
Ordinary shares of HK\$0.005 each at 31st March, 2003 and 2004	<u>10,000,000,000</u>	<u>50,000</u>
Total at 31st March, 2003 and 2004	<u>10,000,000,000</u>	<u>50,000</u>
Issued and fully paid:		
Preference shares of HK\$0.10 each at 1st April, 2002, 31st March, 2003 and 2004	<u>–</u>	<u>–</u>
Ordinary shares of HK\$0.10 each at 1st April, 2002	1,751,375,155	175,138
Reduction of share capital	–	(166,381)
Issue of new shares	<u>700,000,000</u>	<u>3,500</u>
Ordinary shares of HK\$0.005 each at 31st March, 2003	2,451,375,155	12,257
Issue of new shares	<u>3,475,000,000</u>	<u>17,375</u>
Ordinary shares of HK\$0.005 each at 31st March, 2004	<u>5,926,375,155</u>	<u>29,632</u>
Total at 31st March, 2004		<u>29,632</u>
Total at 31st March, 2003		<u>12,257</u>

32. SHARE CAPITAL (continued)

During the year ended 31st March, 2004, the movements in share capital are as follows:

- (i) On 12th June, 2003, the Company placed 300,000,000 ordinary shares of HK\$0.005 each, through a placing agent, to independent investors at a price of HK\$0.040 per share to provide additional general working capital to the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 28th August, 2002.
- (ii) Pursuant to the resolutions passed at a special general meeting held on 5th May, 2003, 500,000,000 and 1,100,000,000 ordinary shares of HK\$0.005 each were issued and allotted to ITC and SMI, respectively, at HK\$0.040 per share to provide additional general working capital to the Company. The transactions were completed on 9th July, 2003.
- (iii) Pursuant to the resolution passed at a special general meeting held on 16th December, 2003, 1,575,000,000 ordinary shares of HK\$0.005 each were issued and allotted to SMI, at HK\$0.040 per share to provide additional general working capital of the Company. The transaction was completed on 19th December, 2003.

Shares issued during the year rank *pari passu* with the then existing shares in all respects.

33. SHARE OPTION SCHEMES

The 1996 Scheme

The Company's share option scheme, adopted on 29th April, 1996 (the "1996 Scheme") was for the primary purpose of providing incentives to directors and eligible employees. Under the 1996 Scheme, the board of directors of the Company may grant options to executive directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. Options granted must be accepted within 28 days and are exercisable not earlier than half year nor later than three and a half years from the date of grant. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration of the grant.

The total number of shares in respect of which options may be granted under the 1996 Scheme was not permitted to exceed 10% of the total number of the issued shares of the Company from time to time excluding any shares issued pursuant to the 1996 Scheme. No individual could be granted an option which, if exercised in full, would result in such individual becoming entitled to subscribe for such number of shares, as when aggregated with the total number of shares already issued or was issuable under all the options previously granted to him, exceeding 25% of the aggregate number of shares for the time being issued and issuable under the 1996 Scheme. The exercise price was determined by the board of directors of the Company, and would not be less than the higher of 80% of the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of a share.

Pursuant to the special resolution passed by shareholders of the Company on 28th August, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the 1996 Scheme. Upon termination of the 1996 Scheme, no further options could be granted thereafter, but all outstanding options granted prior to such termination continued to be valid and exercisable in accordance with their terms of issue and, in all other respects, the provisions of the 1996 Scheme remained in force.

At 31st March, 2004, the number of shares in respect of outstanding share options which were granted under the 1996 Scheme was 5,000,000 (2003: 74,500,000), representing approximately 0.08% (2003: 3%) of the shares of the Company in issue at that date.

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33. SHARE OPTION SCHEMES (continued)

The share options which have been granted under the 1996 Scheme to certain directors/former directors and employees of the Group to subscribe for shares in the Company are as follow:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options				
			Outstanding at 1.4.2003	Granted during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.3.2004
20.12.1999	20.6.2000 to 19.6.2003	1.7400	20,000,000	-	(20,000,000)	-	-
17.3.2000	17.9.2000 to 16.9.2003	1.1600	18,000,000	-	(18,000,000)	-	-
3.11.2000	3.5.2001 to 2.5.2004	0.2680	7,000,000	-	-	(2,000,000)	5,000,000
23.12.2000	23.6.2001 to 22.6.2004	0.2256	10,000,000	-	-	(10,000,000)	-
13.6.2001	13.12.2001 to 12.12.2004	0.1700	19,500,000	-	-	(19,500,000)	-
			<u>74,500,000</u>	<u>-</u>	<u>(38,000,000)</u>	<u>(31,500,000)</u>	<u>5,000,000</u>

Date of grant	Exercisable period	Exercise price HK\$	Number of share options				
			Outstanding at 1.4.2002	Granted during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.3.2003
14.9.1999	14.3.2000 to 13.3.2003	1.5880	27,600,000	-	(27,600,000)	-	-
20.12.1999	20.6.2000 to 19.6.2003	1.7400	20,000,000	-	-	-	20,000,000
17.3.2000	17.9.2000 to 16.9.2003	1.1600	18,000,000	-	-	-	18,000,000
3.11.2000	3.5.2001 to 2.5.2004	0.2680	7,000,000	-	-	-	7,000,000
23.12.2000	23.6.2001 to 22.6.2004	0.2256	10,000,000	-	-	-	10,000,000
13.6.2001	13.12.2001 to 12.12.2004	0.1700	20,500,000	-	(1,000,000)	-	19,500,000
			<u>103,100,000</u>	<u>-</u>	<u>(28,600,000)</u>	<u>-</u>	<u>74,500,000</u>

Included above are share options granted to directors/former directors of the Company as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options				
			Outstanding at 1.4.2003	Granted during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.3.2004
20.12.1999	20.6.2000 to 19.6.2003	1.7400	20,000,000	-	(20,000,000)	-	-
17.3.2000	17.9.2000 to 16.9.2003	1.1600	18,000,000	-	(18,000,000)	-	-
3.11.2000	3.5.2001 to 2.5.2004	0.2680	7,000,000	-	-	(2,000,000)	5,000,000
23.12.2000	23.6.2001 to 22.6.2004	0.2256	10,000,000	-	-	(10,000,000)	-
13.6.2001	13.12.2001 to 12.12.2004	0.1700	18,000,000	-	-	(18,000,000)	-
			<u>73,000,000</u>	<u>-</u>	<u>(38,000,000)</u>	<u>(30,000,000)</u>	<u>5,000,000</u>

Date of grant	Exercisable period	Exercise price HK\$	Number of share options				
			Outstanding at 1.4.2002	Granted during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.3.2003
14.9.1999	14.3.2000 to 13.3.2003	1.5880	27,600,000	-	(27,600,000)	-	-
20.12.1999	20.6.2000 to 19.6.2003	1.7400	20,000,000	-	-	-	20,000,000
17.3.2000	17.9.2000 to 16.9.2003	1.1600	18,000,000	-	-	-	18,000,000
3.11.2000	3.5.2001 to 2.5.2004	0.2680	7,000,000	-	-	-	7,000,000
23.12.2000	23.6.2001 to 22.6.2004	0.2256	10,000,000	-	-	-	10,000,000
13.6.2001	13.12.2001 to 12.12.2004	0.1700	18,000,000	-	-	-	18,000,000
			<u>100,600,000</u>	<u>-</u>	<u>(27,600,000)</u>	<u>-</u>	<u>73,000,000</u>

No share options were exercised by any director or employee during both years.

No charge is recognised in the consolidated income statement in respect of the value of options granted under the 1996 Scheme for both years.

33. SHARE OPTION SCHEMES (continued)

The 2002 Scheme

On 28th August, 2002, the Company adopted the 2002 Scheme under which the board of directors may at its discretion offer to any director (including non-executive director), employee and contracted celebrity, consultant, adviser or agent of any member of the Group or any entity in which the Group holds an equity interests (the "Eligible Person(s)") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the 2002 Scheme. The principal purpose of the 2002 Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other share option schemes of the Company cannot exceed 10% of the issued share capital as at 28th August, 2002, i.e. 245,137,515 shares unless a fresh approval from the shareholders of the Company has been obtained. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company cannot in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each Eligible Person under the 2002 Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company.

Options granted under the 2002 Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee is required to pay HK\$1 to the Company as consideration for the grant.

The subscription price for the shares under the 2002 Scheme must be a price determined by the board of directors of the Company at its absolute discretion but cannot be less than the highest of: (i) the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The 2002 Scheme will remain in force for a period of 10 years commencing on 28th August, 2002, after which no further options shall be granted but the options which are granted during the life of 2002 Scheme may continue to be exercisable in accordance with their terms of issue and, in all other respects, the provisions of the 2002 Scheme shall remain in full force and effect.

The share options which have been granted under the 2002 Scheme to certain Eligible Persons of the Group to subscribe for shares in the Company are as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options			
			Outstanding at 1.4.2003	Granted during the year	Lapsed during the year	Outstanding at 31.3.2004
28.7.2003	28.1.2004 to 27.1.2007	0.0330	-	154,000,000	-	154,000,000
13.2.2004	13.8.2004 to 12.8.2007	0.0670	-	91,000,000	-	91,000,000
			-	245,000,000	-	245,000,000

Total consideration received during the year from Eligible Persons for taking up the options granted amounted to HK\$16 (2003: nil).

For the year ended 31st March, 2004

33. SHARE OPTION SCHEMES (continued)

The 2002 Scheme (continued)

Included above are share options granted to directors of the Company as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options			
			Outstanding at 1.4.2003	Granted during the year	Lapsed during the year	Outstanding at 31.3.2004
28.7.2003	28.1.2004 to 27.1.2007	0.0330	-	154,000,000	-	154,000,000
13.2.2004	13.8.2004 to 12.8.2007	0.0670	-	28,000,000	-	28,000,000
			-	182,000,000	-	182,000,000

No share options were exercised by any Eligible Persons during the year ended 31st March, 2004.

No share options were granted under the 2002 Scheme since its adoption and up to 31st March, 2003.

No charge is recognised in the consolidated income statement in respect of the value of options granted under the 2002 Scheme for the year.

At 31st March, 2004, the number of shares in respect of outstanding share options which were granted under the 2002 Scheme was 245,000,000 (2003: nil) representing 4.1% (2003: nil) of the shares of the Company in issue at that date.

34. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY				
At 1st April, 2002	1,908,060	561,538	(2,509,995)	(40,397)
Arising from capital reorganisation	(1,850,000)	(409,785)	2,426,166	166,381
Issue of shares	52,500	-	-	52,500
Shares issue expenses	(1,529)	-	-	(1,529)
Net loss for the year	-	-	(136,714)	(136,714)
At 31st March, 2003	109,031	151,753	(220,543)	40,241
Issue of shares	121,625	-	-	121,625
Shares issue expenses	(3,731)	-	-	(3,731)
Net loss for the year	-	-	(95,207)	(95,207)
At 31st March, 2004	226,925	151,753	(315,750)	62,928

In addition to retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31st March, 2004 and 2003, the Company had no reserves available for distribution to shareholders.

35. OTHER LONG-TERM PAYABLE

At 31st March, 2003, the other long-term payable represented advance from minority shareholders of subsidiaries. The amount was unsecured, interest-free and was settled during the year.

36. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired the entire share capital of On-Site Investments Limited, Stepwise Investments Limited, Safe Journey Limited and StarEastWorks Concept Limited at an aggregate consideration of approximately HK\$1,000.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	-	703
Investments in securities	8,297	2,147
Inventories	6,656	-
Loans and interest receivable	7,047	-
Debtors, deposits and prepayments	29	774
Bank balances and cash	224	59
Creditors, accrued charges and deposits	(39)	(3,683)
Amount due to a jointly controlled entity	(22,213)	-
	<u>1</u>	<u>-</u>
Net assets	<u>1</u>	<u>-</u>
Satisfied by:		
Cash consideration paid	<u>1</u>	<u>-</u>
Analysis of net inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(1)	-
Bank balances and cash acquired	224	59
	<u>223</u>	<u>59</u>

The subsidiaries acquired during the year contributed approximately HK\$510,000 (2003: nil) to the Group's turnover and had loss from operations of approximately HK\$748,000 (2003: HK\$15,768,000) attributable to the Group since their dates of acquisition.

For the year ended 31st March, 2004

37. DECONSOLIDATION, DILUTION AND DISPOSAL OF INTEREST IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net (liabilities) assets deconsolidated, diluted and disposed of:		
Property, plant and equipment	371	103,165
Properties held for resale	-	5,500
Inventories	1,005	-
Debtors, deposits and prepayments	4,349	384
Bank balances and cash	647	272
Creditors, accrued charges and deposits	(21,792)	(8,136)
Provision for restructuring costs	(1,635)	-
Taxation	(1,382)	(3,961)
Amounts due to related companies	(470)	-
Other borrowings	(1,498)	-
Other long-term payable	(1,536)	-
	<u>(21,941)</u>	<u>97,224</u>
Exchange reserve	(4,551)	(5,831)
	<u>(26,492)</u>	<u>91,393</u>
Gain on deconsolidation, dilution and disposal of interest in subsidiaries	<u>26,502</u>	<u>17,107</u>
	<u><u>10</u></u>	<u><u>108,500</u></u>
Satisfied by:		
Loans receivable	-	5,500
Cash consideration received	<u>10</u>	<u>103,000</u>
	<u><u>10</u></u>	<u><u>108,500</u></u>

37. DECONSOLIDATION, DILUTION AND DISPOSAL OF INTEREST IN SUBSIDIARIES (continued)

	2004 HK\$'000	2003 HK\$'000
Analysis of net (outflow) inflow of cash and cash equivalents in connection with the deconsolidation and disposal of interest in subsidiaries:		
Cash consideration received	10	103,000
Bank balances and cash disposed of	(647)	(272)
	<u>(637)</u>	<u>102,728</u>

The subsidiaries deconsolidated and disposed of during the year contributed approximately HK\$16,409,000 (2003: HK\$70,000) to the Group's turnover and had loss from operations HK\$496,000 (2003: HK\$186,000) attributable to the Group.

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st March, 2004, the loans from related companies of HK\$55,872,000 were classified as other borrowings as ITC ceased to be the substantial shareholder of the Company in February 2004 as explained in note 30.

During the year ended 31st March, 2003, the major non-cash transactions are as follows:

- (a) During the year ended 31st March, 2003, the Group's interest in Leadership Publishing was diluted following the rights issue carried out by Leadership Publishing and subsequent disposal of the Group's interest to Sun Media. Details of these are explained in notes 10 and 19.
- (b) Deposit for acquisition of interest in an associate of HK\$4,750,000 was utilised as a part of the consideration for the acquisition of additional interest in the associate, Applause.
- (c) Increase in loans and interest receivables of approximately HK\$17,200,000 arose as a result of the disposal of properties held for resale.
- (d) Repayment of loans and interest receivable of HK\$12,961,000 was satisfied by the acquisition of properties held for resale.
- (e) As explained in note 32, the Company had carried out the capital reorganisation.

For the year ended 31st March, 2004

39. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	<u>13,771</u>	<u>18,208</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	14,787	12,429
In the second to fifth year inclusive	41,687	33,565
Over five years	<u>23,766</u>	<u>29,233</u>
	<u>80,240</u>	<u>75,227</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and restaurants. Leases are negotiated for an average term of four years with fixed rentals.

At 31st March, 2004 and 2003, the Company had no commitments under non-cancellable operating leases.

The Group as lessor

Property rental income earned during the year was HK\$1,901,000 (2003: HK\$3,757,000). The properties are expected to generate marketable rental yields on an ongoing basis. Certain properties of the Group held have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,276	1,858
In the second to fifth year inclusive	<u>267</u>	<u>507</u>
	<u>1,543</u>	<u>2,365</u>

40. COMMITMENTS

As announced on 20th February, 2004, the Group had entered into agreements with independent third parties to acquire certain interests in two companies incorporated in the PRC which are engaged in the business of cyber café and cinema in the PRC at an aggregate consideration of HK\$38.6 million. At 31st March, 2004, the Group had paid deposits for the above acquisition of approximately HK\$17.3 million. At the date of the financial statements, the acquisition of interest in Stellar Digital was completed in June 2004 while the acquisition of interest in Stellar Cinema has not been completed.

At 31st March, 2004, the Company has no significant capital and other commitment.

At 31st March, 2003, the Group and the Company had no significant capital and other commitments.

41. PLEDGE OF ASSETS

At 31st March, 2004, certain of the Group's property interests with an aggregate carrying value of approximately HK\$48,200,000 (2003: HK\$30,500,000) and bank deposits of the Group and the Company of approximately HK\$37,710,000 (2003: HK\$39,611,000) were pledged to banks to secure credit facilities granted to the Company and certain of its subsidiaries.

42. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The amount of contribution payable to pension scheme required by respective jurisdictions other than Hong Kong is also charged to the income statement.

The total cost charged to income statement of HK\$457,000 (2003: HK\$502,000) represents contribution payable to these schemes by the Group in respect of the current year.

For the year ended 31st March, 2004

43. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2004 HK\$'000	2003 HK\$'000
Substantial shareholder and its subsidiaries (<i>note i</i>):		
Interest on convertible notes paid (<i>note ii</i>)	–	1,219
Rental and building management expenses paid (<i>note iii</i>)	2,252	3,012
Interest expense paid (<i>note iv</i>)	4,568	5,335
Purchase of property, plant and equipment	–	581
Disposal of a subsidiary (<i>note iii</i>)	–	103,000
Associates:		
Advertising and promotion expenses paid (<i>note iii</i>)	120	1,359
Interest income (<i>note iv</i>)	418	977
Distribution income received (<i>note iii</i>)	–	237
Artistes performance fee received (<i>note iii</i>)	57	182
Franchise fee income received (<i>note iii</i>)	100	–
Jointly controlled entities:		
Purchase of property, plant and equipment (<i>note iii</i>)	235	–
Purchase of film stock (<i>note iii</i>)	2,300	–
Rental and building management fee paid (<i>note iii</i>)	–	241
Interest income received (<i>note iv</i>)	643	641
Franchise fee and royalty income received (<i>note iii</i>)	167	3,589
Waiver of obligation due by the Group (<i>note iii</i>)	28,041	–
Companies in which certain directors have beneficial interests:		
Management service fee paid (<i>note iii</i>)	–	1,080

Notes:

- (i) As explained in note 29, ITC ceased to be a substantial shareholder of the Company in February 2004, the transactions with these companies for the period from 1st April, 2003 to the date when ITC ceased to be a substantial shareholder of the Company were disclosed as related party transactions.
- (ii) Interest was charged at the interest rate stipulated in the respective convertible note.
- (iii) The transactions were entered on terms determined by the Group and the relevant party.
- (iv) Interest was charged at prevailing market rate in accordance with the respective loan agreements.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 17, 18, 25, 26, 29 and 30.

44. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Anytime Pictures Company Limited	Hong Kong	HK\$2	-	100%	Movies production and distribution
Asiacreation Management Limited	Hong Kong	HK\$2	-	100%	Investment holding
Best Thought Entertainment Limited	Hong Kong	HK\$100	-	71%	Provision of artistes agency and talent management services
Cornhill Development Limited	Hong Kong	HK\$2	-	100%	Provision of finance
Discover China Production Limited	Hong Kong	HK\$2	-	100%	Film and documentary production and distribution
Extra Wealth Investment Ltd.	British Virgin Islands/Hong Kong	US\$1	-	100%	Property investment
Global Step Limited	Hong Kong	HK\$2	-	100%	Property investment
Jumbo Field Limited	Hong Kong	HK\$2	-	100%	Property investment
Lane Smart Holdings Limited	British Virgin Islands	US\$100	-	100%	Investment holding
Lucky Cosmos Limited	Hong Kong	HK\$2	-	100%	Securities investment
Planet Hollywood (Japan) K. K.	Japan	JPY25,000,000	-	80%	Operation of theme restaurant
Planet Hollywood Entertainment & Advertising Limited	Hong Kong	HK\$2	-	100%	Advertising services
Star East Management Limited	Hong Kong	HK\$100	-	100%	Provision of corporate management services
Star East Talent Management Limited	Hong Kong	HK\$10,000	-	100%	Provisions of artistes agency and talent management services
Well Bright (Asia) Limited	Hong Kong	HK\$2	-	100%	Property investment

For the year ended 31st March, 2004

44. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
上海東魅餐飲娛樂有限公司 (note i) ("上海東魅")	PRC	US\$2,100,000	-	99.7%	Operation of theme restaurant and entertainment complex
台山市德祥房地產有限公司 (note ii) ("台山德祥")	PRC	US\$5,000,000	-	100%	Property investment

Notes:

- (i) This subsidiary is a Sino-foreign co-operative joint venture.
- (ii) This subsidiary is a Sino-foreign equity joint venture. Pursuant to agreements entered with the joint venture partner, the Group is entitled to the entire results of the joint venture.

Except for 上海東魅 and 台山德祥, the above subsidiaries are limited companies incorporated in their respective jurisdiction.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

For the year ended 31st March, 2004

45. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATE

Extracts from the most recent audited financial statements of M Channel for the year ended 31st March, 2004 which are material in the context of the Group's financial statements, are as follows:

Income statement

For the year ended 31st March, 2004

	2004 HK\$'000 (Note)	2003 HK\$'000
Turnover	<u>10,384</u>	<u>35,485</u>
Loss before taxation	(74,424)	(253,247)
Taxation	<u>-</u>	<u>-</u>
Loss before minority interests	(74,424)	(253,247)
Minority interests	<u>-</u>	<u>178</u>
Loss for the year	<u>(74,424)</u>	<u>(253,069)</u>
Group's share of loss	<u>-</u>	<u>(19,562)</u>

Net assets

At 31st March, 2004

	2004 HK\$'000	2003 HK\$'000
Non-current assets	35,023	88,285
Current assets	8,785	28,716
Current liabilities	(25,339)	(33,071)
Non-current liabilities	<u>(58,521)</u>	<u>(49,558)</u>
Net (liabilities) assets	<u>(40,052)</u>	<u>34,372</u>
Group's share of net assets	<u>-</u>	<u>-</u>

Note: According to the audited financial statements of M Channel, the consolidated financial statements of M Channel have been prepared on a going concern basis, the validity of which depends upon future funding being available. In addition, the consolidated financial statements of M Channel had not been prepared in accordance with reverse acquisition accounting treatment required by SSAP No. 30 "Business Combination" issued by the Hong Kong Society of Accountants.

For the year ended 31st March, 2004

46. POST BALANCE SHEET EVENTS

- (a) On 24th February, 2004, the Company entered into a placing agreement with a placing agent whereby the placing agent has conditionally agreed, on a best effort basis, to place up to a maximum of 420,000,000 new shares at a price of HK\$0.055 per new share. The placing was completed on 3rd May, 2004. The placing agent procured an aggregate of 355,000,000 new shares, and net proceeds from the issue of new shares amounted to approximately HK\$19,000,000.

Pursuant to a special resolution passed at the special general meeting held on 14th April, 2004, the name of the Company was changed from Star East Holdings Limited to SMI Corporation Limited, and the Chinese name adopted by the Company for identification purpose was changed from 東方魅力集團有限公司 to 星美國際集團有限公司. In addition, the authorised share capital of the Company was increased to HK\$100,000,000 by the creation of 10,000,000,000 new shares of HK\$0.005 each.

- (b) As announced on 1st April, 2004, the Group had entered into a sale and purchase agreement on 26th March, 2004 with SMI to dispose of the Group's 18.36% and 26.91% interest in Leadership Publishing and M Channel, respectively, to SMI together with the shareholder's loan advanced by the Group to M Channel at a total consideration of HK\$27.3 million. These transactions constituted discloseable and connected transactions for the Company under the Rules Governing the Listing of Securities on the Stock Exchange and was duly approved by the shareholders of the Company in a special general meeting held on 11th May, 2004. Up to the date of these financial statements, these transactions have not been completed.