

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

### 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 (the “Stock Exchange”) and with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public 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 31 March 2004.

### 3. SEGMENTAL INFORMATION

#### 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 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
Six months ended 30 September 2004										
<b>TURNOVER</b>										
External	26,601	1,771	26,172	2,283	1,075	862	101	6,906	-	65,771
Inter-segment *	-	-	-	3,191	-	-	118	389	(3,698)	-
<b>Total</b>	<b>26,601</b>	<b>1,771</b>	<b>26,172</b>	<b>5,474</b>	<b>1,075</b>	<b>862</b>	<b>219</b>	<b>7,295</b>	<b>(3,698)</b>	<b>65,771</b>
<b>RESULT</b>										
Segment result	(4,994)	(13,193)	(5,309)	5,733	2,154	(30)	(777)	(4,459)	(3,191)	(24,066)
Interest income, other than from loans receivable										402
Unallocated corporate expenses										(10,013)
Loss from operations										(33,677)
Finance costs										(1,866)
Loss on settlement of investments in debt securities										(994)
Loss on dilution of interest in a subsidiary										(212)
Allowances for amounts due from jointly controlled entities										(1,978)
Allowances for amounts due from associates										(2,959)
Share of results of associates										(798)
Share of results of jointly controlled entities										(1,000)
<b>Loss before taxation</b>										<b>(43,484)</b>

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

3. SEGMENTAL INFORMATION – *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
Six months ended 30 September 2003										
TURNOVER										
External	4,013	-	25,271	2,891	4,724	1,237	684	913	-	39,733
Inter-segment *	-	-	-	6,087	-	500	137	506	(7,230)	-
Total	<u>4,013</u>	<u>-</u>	<u>25,271</u>	<u>8,978</u>	<u>4,724</u>	<u>1,737</u>	<u>821</u>	<u>1,419</u>	<u>(7,230)</u>	<u>39,733</u>
RESULT										
Segment result	<u>142</u>	<u>(11,993)</u>	<u>(10,865)</u>	<u>27,735</u>	<u>(141)</u>	<u>3,188</u>	<u>(3,898)</u>	<u>(5,543)</u>	<u>(6,086)</u>	(7,461)
Interest income, other than from loans receivable										791
Unallocated corporate expenses										(9,830)
Loss from operations										(16,500)
Finance costs										(3,919)
Gain on disposal of interests in subsidiaries										8,806
Allowances for amounts due from jointly controlled entities										(809)
Allowances for amounts due from associates										(1,151)
Share of results of associates										(511)
Share of results of jointly controlled entities										(465)
Loss before taxation										<u>(14,549)</u>

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

#### 4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	5,000	6,973
Amortisation of intangible assets (included in administrative expenses)	290	364
(Gain) loss on disposal of property, plant and equipment	(11)	974
Loss on disposal of investment properties	114	-
Interest income, other than from loans receivable	(402)	(791)
	<u>5,000</u>	<u>6,973</u>

#### 5. FINANCE COSTS

	Six months ended 30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	1,703	3,749
Bank and other borrowings not wholly repayable within five years	163	170
	<u>1,866</u>	<u>3,919</u>

#### 6. TAXATION

	Six months ended 30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax of the Company and its subsidiaries	-	-
Overseas taxation of subsidiaries	16	484
	<u>16</u>	<u>484</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.

#### 7. LOSS PER ORDINARY SHARE

The calculation of the basic loss per ordinary share for the period is based on the net loss for the period of HK\$43,487,000 (six months ended 30 September 2003: HK\$14,957,000) and on the weighted average of 310,964,932 (six months ended 30 September 2003: 168,388,430) ordinary shares in issue during the period.

The weighted average number of ordinary shares for the purpose of basic loss per ordinary share for both periods have been adjusted for the share consolidation effective on 4 October 2004 as set out in note 17.

No diluted loss per ordinary share is presented as the exercise of the Company's share options would result in a decrease in the loss per ordinary share for both periods.

#### 8. INVESTMENT PROPERTIES

During the current period, the Group disposed of investment property with a carrying amount of HK\$1,200,000 for net proceeds of HK\$1,086,000, resulting in a loss on disposal of HK\$114,000.

At 30 September 2004, the Group's investment properties were revalued by the directors. The resulting revaluation surplus of HK\$2,620,000 has been credited to the condensed consolidated income statement in the current period.

#### 9. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of HK\$949,000 on its property, plant and equipment.

#### 10. INTERESTS IN ASSOCIATES

During the current period, the Group invested approximately HK\$38.6 million for equity interests in two companies established in the People's Republic of China (the "PRC") which are engaged in the operations of cyber cafe and cinema related businesses in the PRC.

## 11. LOANS AND INTEREST RECEIVABLES

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Loans and interest receivables	453,814	463,602
Less: Allowances	(420,139)	(420,660)
	<u>33,675</u>	<u>42,942</u>
Loans and interest receivables	33,675	42,942
Less: Amount due within one year included under current assets	(21,089)	(30,334)
	<u>12,586</u>	<u>12,608</u>
Amount due after one year	<u>12,586</u>	<u>12,608</u>

The Group allows its 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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Current	30,675	39,942
Overdue 6-12 months	-	-
Overdue 1 year	3,000	3,000
	<u>33,675</u>	<u>42,942</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 the prevailing market rates.

## 12. 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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Trade debtors:		
0 – 30 days	3,095	2,404
31 – 60 days	1,058	202
> 60 days	<u>9,247</u>	<u>931</u>
	13,400	3,537
Other debtors, deposits and prepayments	<u>33,847</u>	<u>42,342</u>
	<u><u>47,247</u></u>	<u><u>45,879</u></u>

## 13. CREDITORS, ACCRUED CHARGES AND DEPOSITS

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

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Trade creditors:		
0 – 30 days	3,055	3,645
31 – 60 days	1,593	6,559
> 60 days	<u>14,429</u>	<u>10,286</u>
	19,077	20,490
Other creditors, accrued charges and deposits	<u>49,134</u>	<u>48,466</u>
	<u><u>68,211</u></u>	<u><u>68,956</u></u>

#### 14. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.005 each at 1 April 2004	10,000,000,000	50,000
Increase during the period	<u>10,000,000,000</u>	<u>50,000</u>
Ordinary shares of HK\$0.005 each at 30 September 2004	<u>20,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.005 each at 1 April 2004	5,926,375,155	29,632
Issue of new ordinary shares during the period	<u>355,000,000</u>	<u>1,775</u>
Ordinary shares of HK\$0.005 each at 30 September 2004	<u>6,281,375,155</u>	<u>31,407</u>

During the six months ended 30 September 2004, the movements in share capital are as follows:

- (i) Pursuant to a special resolution passed at the special general meeting on 14 April 2004, the authorised share capital of the Company was increased to HK\$100,000,000 by the creation of 10,000,000,000 new ordinary shares of HK\$0.005 each.
- (ii) On 3 May 2004, the Company placed 355,000,000 ordinary shares of HK\$0.005 each, through a placing agent, to independent investors at a price of HK\$0.055 per share to provide funding for the existing investments and for future investment opportunities in the media and entertainment related business of the Group.

Shares issued during the period rank pari passu with the then existing shares in all material respects.

#### 15. PLEDGE OF ASSETS

At 30 September 2004, the Group's investment properties with an aggregate carrying value of HK\$49,620,000 (31.3.2004: HK\$48,200,000) and the Group's bank deposits of HK\$35,100,000 (31.3.2004: HK\$37,710,000) were pledged to banks to secure credit facilities for the Group.

#### 16. COMMITMENTS

At 30 September 2004, the Group was committed to the payment of approximately HK\$3 million for the co-production of an entertainment program.



## 17. POST BALANCE SHEET EVENTS

- (a) At a special general meeting of the Company held on 30 September 2004, resolutions approving the capital reorganisation were passed and the following took effect on 4 October 2004:
- (i) the share premium account of the Company be reduced by HK\$200,000,000 and transferred to contributed surplus;
  - (ii) the transfer of the credit arising from the reduction of share premium account as mentioned in (i) above and an appropriate amount from the contributed surplus account to set-off the deficit of the Company by approximately HK\$315,750,000; and
  - (iii) the issued and unissued ordinary shares of HK\$0.005 each in the capital of the Company be consolidated on the basis of every twenty ordinary shares being consolidated into one ordinary share of HK\$0.10.
- (b) As announced on 26 October 2004, the Group had entered into an agreement with Paul Y. Properties Group Limited, which is a wholly owned subsidiary of Paul Y. - ITC Construction Holdings Limited, a company listed on the Main Board of the Stock Exchange, to dispose of the entire issued share capital of HK\$8 of Redcliff Property Corp. ("Redcliff") held by the Group, and the shareholders loan of approximately HK\$72 million extended by the Group to Redcliff at an aggregate consideration of HK\$12 million, being the Group's share of the unaudited consolidated net assets of Redcliff at 31 August 2004. Redcliff is the beneficial owner of certain properties of the Group in the PRC.
- (c) Subsequent to the balance sheet date, the Group has disposed certain of the Group's investment properties at a consideration that equal to the aggregate carrying value of HK\$20,620,000.

## 18. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Substantial shareholder and its subsidiaries/associates <sup>(note i)</sup> :		
Interest expenses paid <sup>(note ii)</sup>	-	2,731
Rental and building management expenses paid <sup>(note iii)</sup>	-	1,319
Associates:		
Artistes performance fee received <sup>(note iii)</sup>	102	-
Franchise and royalty income received <sup>(note iii)</sup>	862	-
Interest income received <sup>(note ii)</sup>	58	170
Purchase of property, plant and equipment <sup>(note iii)</sup>	683	-
Jointly controlled entities:		
Franchise and royalty income received <sup>(note iii)</sup>	-	42
Interest income received <sup>(note ii)</sup>	321	322
Purchase of film stocks <sup>(note iii)</sup>	-	2,300
	<u>          </u>	<u>          </u>

Notes:

- (i) ITC Corporation Limited ("ITC") ceased to be a substantial shareholder of the Company since February 2004 and the transactions with ITC and its subsidiaries/associates were not disclosed as related party transactions thereafter.
- (ii) Interest is charged at prevailing market rate in accordance with the respective loan agreements.
- (iii) The transactions are entered at terms determined and agreed by the Group and the relevant party.