

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 OCTOBER 2003**

1. BASIS OF PREPARATION

The unaudited condensed consolidated 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 (“Listing Rules”) and with Statement of Standard Accounting Practice (“SSAP”) No. 25 *Interim financial reporting* issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 April 2003, except as described below.

Income Taxes

In the current interim period, the Group has adopted SSAP 12 (Revised) *Income Taxes*. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary 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, with limited exceptions. In the absence of any special transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the opening balance on accumulated losses at 1 May 2003 has been decreased by HK\$4,267,000 (1 May 2002: increased by HK\$3,057,000). The profit for the six months ended 31 October 2003 has been decreased by HK\$3,326,000 (loss for the six months ended 31 October 2002: HK\$3,326,000).

3. SEGMENTAL INFORMATION

Business Segments

	Continuing operation – Property investment		Discontinued operation – Internet consulting		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31 October 2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	31 October 2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	31 October 2003 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000
Segment revenue						
Sales to external customers	–	22	–	500	–	522
Segment results	(55)	(115)	–	(2,897)	(55)	(3,012)
Unallocated other revenue & net interest income					756	41
Unallocated expenses					(3,864)	(16,301)
Gain on disposal of subsidiaries					41,389	14,320
Gain on disposal of an associate					18,000	–
Amortisation of goodwill					(14,073)	(9,769)
Profit/(Loss) from operations					42,153	(14,721)

4. DISCONTINUED OPERATION

In August 2003, the Group disposed of 45% equity interest in its formerly 85% owned subsidiary, WebVideoShop.com Limited (“WebVideoShop”), which was engaged in internet consulting.

The results of the internet consulting segment for the period from 1 May 2003 to 31 August 2003, which have been included in the Group’s results for the period, were as follows:

	4 months ended 31.8.2003 (Unaudited) HK\$’000	6 months ended 31.10.2002 (Unaudited) HK\$’000
Sales and results:		
Sales	–	500
Operating expenses	–	(3,397)
	<hr/>	<hr/>
Loss for the period	–	(2,897)
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The net assets of WebVideoShop at the date of disposal were as follows:

	31.8.2003 (Unaudited) HK\$’000
Net liabilities disposed of	(991)
Attributable goodwill	57,919
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Gain on disposal	56,928
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Total consideration	72,000
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Satisfied by:	
Cash consideration	72,000
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WebVideoShop did not make any significant contribution to the results or cash flows of the Group during the periods.

The Group also disposed of the remaining 40% equity interest in WebVideoShop during the period and a gain on disposal of HK\$18,000,000 was recognised.

5. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is stated after crediting and charging the following:

	Six months ended 31 October 2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Crediting:		
Rental income less outgoings	–	22
Interest income	741	11
Gain on disposal of subsidiaries	41,389	14,320
Gain on disposal of an associate	18,000	–
Charging:		
Depreciation of property, plant and equipment	459	1,454
Amortisation of goodwill	14,073	9,769

6. TAXATION

	Six months ended 31 October 2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Other jurisdictions	2	–
Share of taxation attribute to an associate	42	492
	<u>44</u>	<u>492</u>

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries did not derive any assessable profit arising in Hong Kong for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The associates established in the PRC are subject to enterprise income tax on its taxable income at the rate of 33%.

In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/04 year of assessment. The effect of this increase in tax rate has been reflected in the calculation of unrecognised deferred tax balances as at 31 October 2003. Details of the unrecognised deferred taxation are set out in note 12.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend for the period (2002: nil).

8. EARNING/(LOSS) PER SHARE

The calculation of the basic earning/(loss) per share is based on the Group's net profit for the period of HK\$36,178,000 (2002: net loss of HK\$16,497,000) and on the weighted average of 1,730,288,469 (2002: 875,940,643) shares in issue during the period.

No amount has been presented for the diluted earning/(loss) per share for the current and previous periods, as the effect of the exercise of the Company's outstanding share options would have been anti-dilutive.

9. RECEIVABLES, DEPOSITS AND PREPAYMENTS

The following is an aged analysis of accounts receivable at the reporting date:

	31.10.2003 (Unaudited) HK\$'000	30.4.2003 (Audited) HK\$'000
0 – 90 days	–	–
Over 90 days	–	1,500
	<u>–</u>	<u>1,500</u>
Less: Provision for doubtful debts	–	(1,500)
	<u>–</u>	<u>–</u>

10. SHARE CAPITAL

	Number of Original shares of HK\$0.10 each	Number of New shares of HK\$0.01 each	Value HK\$'000
Authorised:			
At 1 May 2002 and 30 April 2003	20,000,000,000	–	2,000,000
Reduction of capital	(20,000,000,000)	20,000,000,000	(1,800,000)
Cancellation of capital	–	(19,124,059,357)	(191,241)
Increase during the period	–	39,124,059,357	391,241
	<u>–</u>	<u>40,000,000,000</u>	<u>400,000</u>
At 31 October 2003	<u>–</u>	<u>40,000,000,000</u>	<u>400,000</u>
Issued and fully paid:			
At 1 May 2002 and 30 April 2003	875,940,643	–	87,594
Reduction of capital	(875,940,643)	875,940,643	(78,835)
Issue of new shares	–	1,200,000,000	12,000
	<u>–</u>	<u>2,075,940,643</u>	<u>20,759</u>
At 31 October 2003	<u>–</u>	<u>2,075,940,643</u>	<u>20,759</u>

Details of the changes in the share capital of the Company during the period are as follows:

- (a) Pursuant to special resolutions passed at the special general meeting of the Company held on 19 June 2003, the share capital of the Company was reorganized as follows:
- (i) The nominal value of the issued share capital of the Company was reduced from HK\$0.10 per share to HK\$0.01 per share (“New Share”) by way of cancellation of HK\$0.09 of the paid up capital on each share of the Company;
 - (ii) All of the existing authorised but unissued share capital of the Company (including the authorised but unissued share capital arising from the capital reduction per (i) above) was cancelled and subsequently the authorised capital was increased to HK\$400,000,000 comprising 40,000,000,000 New Shares; and
 - (iii) The amount of approximately HK\$131,286,000 standing to the credit of the share premium account of the Company as at 30 April 2002 was cancelled.
- The credit of approximately HK\$210,121,000 comprising HK\$78,835,000 arising from the capital reduction per (i) above and HK\$131,286,000 arising from the cancellation of share premium per (iii) above was wholly used in or towards reduction of the accumulated losses of the Company.
- (b) On 23 June 2003, the Company issued 1,200,000,000 New Shares to an investor under a subscription agreement dated 8 April 2003, which represented approximately 57.81% of the issued share capital of the Company as enlarged by the New Shares issued, and after the completion of the capital reorganisation referred to in note (a) above.

11. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 May 2002							
– as originally stated	131,286	368,234	(3)	11,240	–	(326,857)	183,900
– adoption of SSAP 12 (Revised)	–	–	–	–	–	(3,057)	(3,057)
	<u>131,286</u>	<u>368,234</u>	<u>(3)</u>	<u>11,240</u>	<u>–</u>	<u>(329,914)</u>	<u>180,843</u>
Realised upon disposal of subsidiaries	–	–	3	–	–	15,239	15,242
Gain not recognised in the income statement	–	–	3	–	–	15,239	15,242
Net loss for the period	–	–	–	–	–	(16,497)	(16,497)
Balance at 31 October 2002	<u>131,286</u>	<u>368,234</u>	<u>–</u>	<u>11,240</u>	<u>–</u>	<u>(331,172)</u>	<u>179,588</u>
Released upon expiry of share options	–	–	–	(11,240)	–	11,240	–
Share of capital reserve of an associate	–	–	–	–	10,475	–	10,475
Net (losses)/gains not recognised in the income statement	–	–	–	(11,240)	10,475	11,240	10,475
Net loss for the period	–	–	–	–	–	(26,072)	(26,072)
Balance at 30 April 2003	<u>131,286</u>	<u>368,234</u>	<u>–</u>	<u>–</u>	<u>10,475</u>	<u>(346,004)</u>	<u>163,991</u>
Share of capital reserve of an associate	–	–	–	–	1,735	–	1,735
Exchange differences arising on translation of overseas operations	–	–	95	–	–	–	95
Net gains not recognised in the income statement	–	–	95	–	1,735	–	1,830
Reduction of capital	(131,286)	–	–	–	–	210,121	78,835
Share issued at premium, net of issue costs	17,038	–	–	–	–	–	17,038
Net profit for the period	–	–	–	–	–	36,178	36,178
At 31 October 2003	<u>17,038</u>	<u>368,234</u>	<u>95</u>	<u>–</u>	<u>12,210</u>	<u>(99,705)</u>	<u>297,872</u>

12. DEFERRED TAXATION

At 31 October 2003, the Group has unused tax losses of HK\$99 million (30 April 2003: HK\$101 million) available for offset against future profits. No deferred tax assets have been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. All unused losses can be carried forward indefinitely.

Temporary differences arising in connection with interests in associates and accelerated tax depreciation are insignificant.

13. DISPOSAL OF SUBSIDIARIES

	Six months ended 31 October	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net assets (liabilities) disposed of	34,692	(3)
Attributable goodwill	57,919	–
Release of reserves upon disposal:		
– Exchange reserve	–	3
	<u>92,611</u>	–
Gains on disposal	<u>41,389</u>	14,320
Total consideration	<u><u>134,000</u></u>	<u><u>14,320</u></u>
Satisfied by:		
Cash consideration	134,000	13,000
Waiver of amounts due by the Company to the subsidiaries	–	1,320
	<u><u>134,000</u></u>	<u><u>14,320</u></u>

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

14. POST BALANCE SHEET EVENTS

On 29 October 2003, Oasiscity Limited (“Oasiscity”), a wholly-owned subsidiary of the Company, Phoenix Satellite Television Company Limited (“Phoenix Satellite TV”) and Phoenix Real Properties Limited (“Phoenix Real Properties”) entered into a subscription and shareholders’ agreement (“Agreement”) on 29 October 2003 in relation to the joint development of Phoenix Tower in Shenzhen, PRC. On the same date, the Company gave a guarantee in favour of Phoenix Satellite TV under which the Company guaranteed the due performance by Oasiscity of its obligations under the Agreement.

Pursuant to the Agreement, Oasiscity will subscribe for 60 new shares to be issued by Phoenix Real Properties at par value, representing 60% of its enlarged issued share capital, after Oasiscity contributed a shareholder loan of RMB30 million to Phoenix Real Properties for the development of Phoenix Tower. The transaction has not yet completed up to the report date. Details of the acquisition are set out in the Group’s circular dated 6 November 2003.

15. COMPARATIVE FIGURES

Comparative figures in respect of other operating expenses and gain on disposal of subsidiaries in the condensed consolidated income statement have been reclassified to conform with the current period’s presentation.

In addition, certain comparative figures of the condensed consolidated income statement and condensed consolidated balance sheet have been adjusted as a result of change in accounting policy in order to comply with SSAP 12 Income Taxes as detailed in note 2.