

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

The consolidated accounts also includes the Group's share of the results of associated companies for the year.

(c) Subsidiaries

A subsidiary is a company in which more than 50% of its issued voting share capital is held for the long term or the composition of the board of directors is controlled. Investments in subsidiaries are carried in the Company's balance sheet at cost less provisions. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The Group's investments in associated companies are included in the consolidated balance sheet at the Group's share of net assets, after attributing fair values to the net assets at the date of acquisition. The Company's investments in associated companies are carried at cost less provisions.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(d) **Associated companies** *(Cont'd)*

Where associated companies have financial year ends other than 31st March, their latest audited accounts made up to a date within six months before 31st March 2001 are used for equity accounting purposes.

In the year ended 31st March 2001 the Group changed its policy in respect of the accounting for intangible assets acquired through its investments in associated companies.

Previously a proportion of the cost of acquisition of Television Broadcasts Limited, an associated company, was attributed to the broadcasting licence, contracts with artistes and the film library of that associated company. Such intangibles were included as part of the Group's investment in associated companies. No amortisation was provided for these assets and their carrying value was reviewed annually by the Directors to determine whether any permanent impairment in value had occurred.

During the year, the new Hong Kong Statement of Standard Accounting Practice Number 29 ("SSAP 29") "Intangible assets" was introduced by the Hong Kong Society of Accountants and will become effective for financial statements relating to periods beginning on or after 1st January 2001. With reference to these recent developments in the definition of and accounting for intangible assets, the Directors reviewed the accounting treatment on intangible assets and consider that it is no longer appropriate to recognise a separate value for these assets in the Group accounts.

Accordingly, the Group's revised policy is to attribute no value to these assets and to account for the cost attributed to the intangibles as goodwill on acquisition. In accordance with the Group's accounting policy for acquired goodwill, such amounts are taken to reserves in the year of acquisition. This change of accounting policy has been applied retrospectively and comparatives have been restated accordingly. The effect of this change is to reduce the Group's investment in associated companies at 1st April 1999 by HK\$934,332,000 and to decrease opening retained profit at 1st April 1999 by HK\$376,938,000 and opening distributable general reserve at 1st April 1999 by HK\$557,394,000. There is no effect on the previously reported profit figures.

(e) **Goodwill and capital reserve**

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

Where the fair values of net assets of subsidiaries and associated companies exceed the purchase consideration, such differences, being discounts on acquisition, are taken to capital reserve in the year of acquisition.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated at rates sufficient to write off the cost of the fixed assets over their estimated useful lives on a straight line basis. The annual rates of depreciation adopted are as follows:

Buildings	2% – 4%
Furniture and fittings	10%
Equipment	10% – 20%
Motor vehicles	25%

Leasehold land is depreciated over the unexpired period of the lease on a straight line basis.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Inventories

Inventories comprise released films, unreleased films, raw materials and cost of processing works.

Released films are stated at cost less amortisation. Amortisation of released films is calculated at rates sufficient to write off the total cost of production in relation to expected revenues over a period of three years. The unamortised portion of released films, unreleased films, raw materials and cost of processing works are valued at cost less provision for impairment.

Cost of released films and unreleased films includes production costs comprising cost of services, facilities and raw materials consumed in the creation of a film. Raw materials and cost of processing works comprise raw films, chemicals and costs of colour laboratory film processing work.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(h) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in the exchange fluctuation reserve.

(i) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(j) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

(k) Revenue recognition

- (i) Gross receipts from film production and distribution are recognised upon delivery of the films.
- (ii) Studio facilities fees are recognised when the facilities are used.
- (iii) Rental income from land and building is recognised on a straight line basis over the terms of the lease.
- (iv) Management fee income is recognised when the services are rendered.
- (v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries.

Turnover consists of rental income, studio facilities fees and gross receipts from film production and distribution.

Other revenues consist of management fee income and interest income.

The amount of each significant category of revenue recognised during the year is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Turnover		
Rental income from land and buildings (Note 25(iii))	18,428	18,371
Studio facilities fees, film production and distribution (Note 25(ii))	14,715	13,497
	<u>33,143</u>	<u>31,868</u>
Other revenues		
Management fee income (Note 25(i))	10,260	12,617
Interest income	15,299	2,151
Others	1,624	1,952
	<u>27,183</u>	<u>16,720</u>
Total revenues	<u>60,326</u>	<u>48,588</u>

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES (Cont'd)

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and geographical areas is as follows:

	Turnover		Operating profit after finance costs	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Rental income from land and buildings	18,428	18,371	13,361	13,067
Investment administration	—	—	(3,630)	86,898
Gain on disposal of film library	—	—	471,980	—
Studio facilities fees, film production and distribution	14,715	13,497	(9,416)	(22,246)
	<u>33,143</u>	<u>31,868</u>	<u>472,295</u>	<u>77,719</u>
By geographical areas:				
Hong Kong	26,974	28,418	470,085	75,564
South East Asia	4,523	1,968	780	1,008
USA	100	411	11	345
Others	1,546	1,071	1,419	802
	<u>33,143</u>	<u>31,868</u>	<u>472,295</u>	<u>77,719</u>

NOTES TO THE ACCOUNTS

3. OPERATING PROFIT

	Group	
	2001	2000
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gross rental income less outgoings	18,053	17,955
Exchange gain	23	—
Gain on liquidation of a subsidiary	84	—
Profit on disposal of interest in an associated company	—	93
	<u> </u>	<u> </u>
<u>Charging</u>		
Amortisation of released films	5,629	2,759
Depreciation charge	7,434	6,962
Exchange loss	—	680
Staff costs	30,301	31,613
Operating leases – land and buildings	400	376
Retirement benefit costs (Note 9)	306	—
Auditors' remuneration	335	292
Loss on disposal of a subsidiary	—	52
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

	2001	2000
	HK\$'000	HK\$'000
Fees	50	50
Salaries, housing and other allowances	5,499	5,395
Bonuses	315	315
Contribution to retirement scheme	5	—
	<u> </u>	<u> </u>
	<u>5,869</u>	<u>5,760</u>

The emoluments paid to independent non-executive directors included above are directors' fees amounting to HK\$24,000 (2000: HK\$24,000).

NOTES TO THE ACCOUNTS

4. DIRECTORS' EMOLUMENTS (Cont'd)

The emoluments paid to directors are further analysed into the following bands:

<u>Emoluments band</u>	<u>Number of directors</u>	
	<u>2001</u>	<u>2000</u>
HK\$nil – HK\$1,000,000	8	5
HK\$3,500,001 – HK\$4,000,000	1	1
	<u>9</u>	<u>6</u>

5. FIVE HIGHEST PAID EMPLOYEES

Among the five highest paid employees, three (2000: three) are directors whose emoluments are disclosed in Note 4 above. The emoluments of the other two (2000: two) employees are analysed as follows:

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Salaries, housing and other allowances	3,694	3,834
Bonuses	274	274
Contribution to retirement scheme	7	—
	<u>3,975</u>	<u>4,108</u>

<u>Emoluments band</u>	<u>Number of employees</u>	
	<u>2001</u>	<u>2000</u>
HK\$1,500,000 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>2</u>	<u>2</u>

NOTES TO THE ACCOUNTS

6. PROFIT ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATED COMPANY

Pursuant to the Placing and Subscription Agreements entered into amongst the Company, Lehman Brothers Securities Asia Limited (“the Placing Agent”) and Television Broadcasts Limited (“TVB”) dated 28th April 1999, the Company appointed the Placing Agent to place an aggregate of 20,355,000 shares held by the Company (“the Placing Shares”) of HK\$0.05 each in TVB at a price of HK\$30.30 to independent investors. The Company has also agreed to subscribe for 20,355,000 new shares (“the Subscription Shares”) of HK\$0.05 each from TVB at a price of HK\$30.30. These Subscription Shares rank pari passu in all respects with the Placing Shares.

Following the completion of the Placing and Subscription agreements on 12th May 1999, the Company’s interests in TVB were diluted from 27.95% to 26.65% based on the enlarged share capital of TVB and gave rise to a profit on deemed disposal of interest in TVB amounting to approximately HK\$90,545,000.

7. GAIN ON DISPOSAL OF FILM LIBRARY

On 15th May 2000, the Group disposed of all the rights and titles of the Group’s films and pictures, and the related assets (collectively the “film library”) to an independent third party (“the Purchaser”) at a consideration of HK\$480,000,000.

The shareholders of the Purchaser have also granted an option to the Company, to be exercised no later than 31st December 2002, by which the Company may purchase from the shareholders of the Purchaser 33 1/3% of the shares attributable to the film library in the event that the Purchaser is directly or indirectly listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at a consideration of HK\$200 million based on the film library being valued at HK\$600 million, being the consideration of HK\$480 million plus the cost of remastering and digitalising the film library at HK\$120 million.

In the event that such a listing as described above does not materialise, TVB, an associated company of the Company, and the Company shall each be granted an option, expiring on or before 31st December 2002, to each acquire 10% of the issued and paid up capital of the Purchaser. The consideration payable for each 10% equity interest is 10% of the consideration for the film library paid by the Purchaser, plus remastering and digitalising costs paid by the Purchaser up to the time of the exercise of such option net of any external borrowings undertaken by the Purchaser to finance the acquisition of the film library.

The gain on disposal represents the excess of the consideration over the book value of the film library less outgoings incurred. This gain is considered capital in nature.

NOTES TO THE ACCOUNTS

8. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest expense on		
– bank overdrafts	4	46
– loan from a related company wholly repayable within five years (Note 25(iv))	292	6,427
	<u>296</u>	<u>6,473</u>

9. RETIREMENT BENEFIT COSTS

On 1st December 2000, the Group set up a Mandatory Provident Fund Scheme (“MPF Scheme”) in accordance with the Mandatory Provident Fund Schemes Ordinance.

All permanent staff located in Hong Kong whose employment period reaches 60 days or more must join the MPF Scheme.

The contributions to the MPF Scheme made by the Group for permanent staff is calculated at 5% of individual’s “relevant income” with a maximum amount of HK\$1,000 per month. “Relevant income” includes salaries, wages, paid leave, fees, commissions, bonuses, gratuities and allowances (excluding housing allowance/benefits, any redeemed payment and long service payment). All eligible members have to contribute 5% of the “relevant income” where “relevant income” is HK\$4,000 or more per month with a maximum amount of HK\$1,000 per month as the mandatory contributions.

Contributions payable by the Group to the MPF Scheme amounted to approximately HK\$73,000 as at 31st March 2001 (2000: Nil).

NOTES TO THE ACCOUNTS

10. TAXATION

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the year (2000: 16%). Tax on overseas profits has been calculated, where applicable, at the rates of taxation prevailing in the countries in which the Group operates.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	—	105
Overseas taxation	—	53
	—	158
Associated companies:		
Hong Kong profits tax	33,217	21,640
1997/98 Hong Kong profits tax rebate	—	(2,441)
Overseas taxation	2,838	5,100
Deferred taxation	511	(3,681)
	36,566	20,618
	36,566	20,776

Deferred taxation for the year has not been provided for in respect of the following:

	2001	2000
	HK\$'000	HK\$'000
Accelerated depreciation allowances	255	16
Unutilised taxation losses	(2,517)	(1,666)
	(2,262)	(1,650)

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$577,764,000 (2000: HK\$80,149,000).

NOTES TO THE ACCOUNTS

12. APPROPRIATIONS

	2001	2000
	HK\$'000	HK\$'000
Interim dividend paid, HK\$0.10 (2000: HK\$0.05) per ordinary share	39,839	19,920
Final dividend proposed, HK\$0.15 (2000: HK\$0.15) per ordinary share	59,758	59,758
	<u>99,597</u>	<u>79,678</u>

13. EARNINGS PER SHARE

The calculation of earnings per share is based on earnings for the year of HK\$673,697,000 (2000: HK\$209,783,000) and on 398,390,400 ordinary shares in issue throughout the two years ended 31st March.

14. FIXED ASSETS

Group and Company

	Hong Kong medium term lease land and buildings (Note)	Motor vehicles, furniture, fittings and equipment	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st April 2000	173,298	67,715	241,013
Additions	187	6,601	6,788
Disposals	—	(127)	(127)
At 31st March 2001	<u>173,485</u>	<u>74,189</u>	<u>247,674</u>
Accumulated depreciation			
At 1st April 2000	27,738	44,683	72,421
Charge for the year	3,180	4,254	7,434
Written back on disposals	—	(123)	(123)
At 31st March 2001	<u>30,918</u>	<u>48,814</u>	<u>79,732</u>
Net book value			
At 31st March 2001	<u>142,567</u>	<u>25,375</u>	<u>167,942</u>
At 31st March 2000	<u>145,560</u>	<u>23,032</u>	<u>168,592</u>

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (Cont'd)

Note:

Included in land and buildings of the Company and the Group is a property carried at cost less accumulated depreciation amounting to HK\$137,725,000 (2000: HK\$140,545,000). The property is held under a medium term lease granted by the District Commissioner, New Territories, of the Government of Hong Kong Special Administrative Region under special conditions ("the grant"). Under the conditions of the grant, the use of the property is restricted to specific purposes and there are also restrictions on the right to assign, underlet or dispose of the property whereby prior approval should be obtained from the District Commissioner. The property is classified as land and buildings of the Company and the Group and stated at cost less accumulated depreciation at the balance sheet date.

15. SUBSIDIARIES

(a)

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,910	4,913
Less: provisions	(4,900)	(3,622)
	10	1,291
Amounts due from subsidiaries (Note b)	17,423	2,514
Amounts due to subsidiaries (Note b)	(10,132)	(90)
	<u>7,301</u>	<u>3,715</u>

(b) The amounts due from/to subsidiaries are unsecured and interest free, and have no fixed repayment terms, except for an amount due from a subsidiary of HK\$16,045,000 which is unsecured, bears interest at Hong Kong Dollar prime lending rate per annum, and has no fixed repayment terms.

NOTES TO THE ACCOUNTS

15. SUBSIDIARIES (Cont'd)

(c) Details of the subsidiaries are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held at 31st March 2001 by	
					Group	Company
Film Power Company Limited	Hong Kong	Film production and distribution	10	HK\$1	60%	—
Multi Entertainment Limited	Hong Kong	Investment holding	100	HK\$1	100%	—
Shaw Productions Limited	Hong Kong	Investment holding	2	HK\$1	100%	100%
Special Classic Limited	Hong Kong	Sales of karaoke discs	2	HK\$1	100%	100%
Cosmopolitan Film Productions Co. Limited	Hong Kong	Dormant	1,000	HK\$1	100%	100%
United Production Limited	Hong Kong	Dormant	2	HK\$1	100%	100%
* Pearl River Film Productions Limited	Hong Kong	Dormant	10,000	HK\$1	100%	100%

A subsidiary, Shaw Brothers (Thailand) Company Limited, was liquidated during the year.

* Company not audited by PricewaterhouseCoopers, Hong Kong.

NOTES TO THE ACCOUNTS

16. ASSOCIATED COMPANIES

(a)

	Group	
	2001	2000 restated
	HK\$'000	HK\$'000
Share of net assets	690,474	598,586
Loan to an associated company	36,600	30,300
	<u>727,074</u>	<u>628,886</u>
Investments at cost:		
Unlisted shares	3	3
Shares listed in Hong Kong	1,053,250	1,053,250
	<u>1,053,253</u>	<u>1,053,253</u>
	Company	
	2001	2000
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	3	3
Shares listed in Hong Kong	1,053,250	1,053,250
	<u>1,053,253</u>	<u>1,053,253</u>
Loan to an associated company	36,600	30,300
	<u>1,089,853</u>	<u>1,083,553</u>
Market value of listed shares	<u>4,851,656</u>	<u>7,886,787</u>

Profit for the year retained by associated companies amounts to HK\$93,208,000 (2000: HK\$41,111,000).

NOTES TO THE ACCOUNTS

16. ASSOCIATED COMPANIES (Cont'd)

- (b) The loan to an associated company is unsecured and interest free, and has no fixed repayment terms.
- (c) Dividends from an associated company received and receivable by the Company during the year amounted to HK\$108,194,000 (2000: HK\$91,111,000).
- (d) Details of the associated companies are as follows:

Name	Place of incorporation/ operation	Principal activities	Percentage of issued ordinary share capital held at 31st March 2001 by	
			Group	Company
Television Broadcasts Limited	Hong Kong	Television broadcasting	26.00%	26.00%
Goldway Holdings Limited	British Virgin Islands	Investment holding	35%	35%
Hong Kong Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	35%	—
China Digital Movie City Company Limited	Hong Kong	Dormant	35%	—
Hong Kong Digital Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	35%	—

The following are extracts from the published accounts of Television Broadcasts Limited.

NOTES TO THE ACCOUNTS

16. ASSOCIATED COMPANIES (Cont'd)

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2000

	2000	1999
	HK\$'000	HK\$'000
Turnover	3,489,941	3,252,384
Cost of sales	<u>(1,674,110)</u>	<u>(1,564,337)</u>
Gross profit	1,815,831	1,688,047
Other revenues	108,679	76,403
Government royalty	(104,717)	(188,132)
Selling and distribution costs	(490,052)	(450,024)
General and administrative expenses	(529,234)	(500,365)
Other operating expenses	(14,439)	(23,778)
Gain on deemed disposal of subsidiaries	<u>129,393</u>	<u>—</u>
Operating profit	915,461	602,151
Finance costs	(20,929)	(18,350)
Share of profits less losses of		
Associated companies	5,633	(499)
Jointly controlled entity	<u>(10,806)</u>	<u>(11,908)</u>
Profit before taxation	889,359	571,394
Taxation	<u>(140,626)</u>	<u>(78,902)</u>
Profit after taxation	748,733	492,492
Minority interests	<u>25,418</u>	<u>13,190</u>
Profit attributable to shareholders	<u><u>774,151</u></u>	<u><u>505,682</u></u>

NOTES TO THE ACCOUNTS

16. ASSOCIATED COMPANIES (Cont'd)

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER 2000

	2000	1999
	HK\$'000	HK\$'000
Fixed assets	991,768	700,879
Jointly controlled entity	107,184	110,983
Associated companies	15,847	10,444
Investment in securities	47,956	72,153
Loans to investee companies	11,485	23,461
Current assets		
Programmes and film rights	457,827	376,745
Stocks	56,308	25,358
Trade and other receivables, prepayments and deposits	1,108,548	1,129,060
Investment in securities	61,405	64,869
Pledged bank deposits	5,850	—
Cash and bank balances	1,319,580	1,070,839
Deferred taxation	776	2,751
	<u>3,010,294</u>	<u>2,669,622</u>
Current liabilities		
Trade and other payables and accruals	727,112	530,232
Short term bank loans, secured	190,234	176,270
Bank overdrafts	47,392	48,400
Current portion of long term liabilities	18,577	22,491
Taxation	79,367	46,820
Proposed dividend	328,500	262,800
Provision for government royalty	14,902	59,828
	<u>1,406,084</u>	<u>1,146,841</u>
Net current assets	<u>1,604,210</u>	<u>1,522,781</u>
	<u>2,778,450</u>	<u>2,440,701</u>
Financed by:		
Share capital	21,900	21,900
Reserves	2,633,008	2,280,032
Shareholders' funds	2,654,908	2,301,932
Minority interests	45,256	43,839
Long term liabilities	78,286	94,930
	<u>2,778,450</u>	<u>2,440,701</u>

NOTES TO THE ACCOUNTS

17. INVENTORIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Released films	5,334	1,554	—	316
Unreleased films	13,396	354	—	114
Raw materials and processing work	333	1,581	333	1,581
	<u>19,063</u>	<u>3,489</u>	<u>333</u>	<u>2,011</u>

18. ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note)	3,488	1,393	289	1,308
Prepayments, deposits and other receivables	7,452	5,803	5,889	3,164
	<u>10,940</u>	<u>7,196</u>	<u>6,178</u>	<u>4,472</u>

Note:

The group has a defined credit policy. The general credit term is 30 days.

At 31st March 2001, the ageing analysis of the trade receivables were as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	2,547	541	—	541
1 – 3 months	681	176	114	176
Over 3 months	260	676	175	591
	<u>3,488</u>	<u>1,393</u>	<u>289</u>	<u>1,308</u>

NOTES TO THE ACCOUNTS

19. CREDITORS AND ACCRUALS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note)	1,182	—	—	—
Other payables and accruals	19,713	12,234	12,016	10,812
	<u>20,895</u>	<u>12,234</u>	<u>12,016</u>	<u>10,812</u>

Note:

At 31st March 2001, the ageing analysis of the trade payables were as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 – 3 months	1,177	—	—	—
Over 3 months	5	—	—	—
	<u>1,182</u>	<u>—</u>	<u>—</u>	<u>—</u>

20. SHARE CAPITAL

	2001	2000
	HK\$'000	HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.25 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
398,390,400 ordinary shares of HK\$0.25 each	<u>99,598</u>	<u>99,598</u>

NOTES TO THE ACCOUNTS

21. RESERVES

(a) Group

	Capital reserve	Exchange fluctuation reserve	General reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 1999 as previously reported					
Company and subsidiaries	7,677	84	557,394	538,675	1,103,830
Associated companies	—	1,405	—	342,709	344,114
	7,677	1,489	557,394	881,384	1,447,944
Effect of change in accounting policy (Note 1(d))	—	—	(557,394)	(376,938)	(934,332)
At 1st April 1999 as restated	7,677	1,489	—	504,446	513,612
Realised on disposal of a subsidiary	49	12	—	—	61
Realised on disposal of interest in an associated company	(2,956)	(61)	—	—	(3,017)
Exchange translation differences	—	(1)	—	—	(1)
Share of reserve movements of an associated company	—	(344)	—	(2,506)	(2,850)
Transfer from profit for the year	33,496	—	—	—	33,496
Profit for the year retained	—	—	—	96,609	96,609
At 31st March 2000 as restated	<u>38,266</u>	<u>1,095</u>	<u>—</u>	<u>598,549</u>	<u>637,910</u>
Company and subsidiaries	38,266	95	—	218,696	257,057
Associated companies	—	1,000	—	379,853	380,853
At 31st March 2000 as restated	<u>38,266</u>	<u>1,095</u>	<u>—</u>	<u>598,549</u>	<u>637,910</u>

NOTES TO THE ACCOUNTS

21. RESERVES (Cont'd)

(a) Group (Cont'd)

	Legal reserve	Capital reserve	Exchange fluctuation reserve	General reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening balances at 1st April 2000 as restated						
Company and subsidiaries	—	38,266	95	—	218,696	257,057
Associated companies	—	—	1,000	—	379,853	380,853
At 1st April 2000 as restated	—	38,266	1,095	—	598,549	637,910
Realised on disposal of film library	—	4,890	—	—	—	4,890
Realised on liquidation of a subsidiary	—	—	(93)	—	—	(93)
Exchange translation differences	—	—	(2)	—	—	(2)
Share of reserve movements of an associated company	1,942	304	158	—	(3,724)	(1,320)
Profit for the year retained	—	—	—	—	574,100	574,100
Transfer	—	(10,478)	—	—	10,478	—
At 31st March 2001	<u>1,942</u>	<u>32,982</u>	<u>1,158</u>	<u>—</u>	<u>1,179,403</u>	<u>1,215,485</u>
Company and subsidiaries	—	32,678	—	—	710,066	742,744
Associated companies	<u>1,942</u>	<u>304</u>	<u>1,158</u>	<u>—</u>	<u>469,337</u>	<u>472,741</u>
At 31st March 2001	<u>1,942</u>	<u>32,982</u>	<u>1,158</u>	<u>—</u>	<u>1,179,403</u>	<u>1,215,485</u>

Capital reserve includes a transfer from retained profit, which represents the excess of the Group's share of net assets at fair value of an associated company over the Group's share of the associated company's distributable reserves arising from the deemed disposal of interest in the associated company.

In accordance with local laws of a subsidiary of an associated company of the Group, that company is required to set aside 10% of annual net income less any accumulated deficit as legal reserve to the extent that the legal reserve amounts to total contributed share capital. The application of the legal reserve is restricted to covering operating losses and conversion into share capital of that subsidiary.

NOTES TO THE ACCOUNTS

21. RESERVES (Cont'd)

(b) Company

	General reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April 1999	557,394	535,132	1,092,526
Profit for the year retained	—	471	471
At 31st March 2000 and at 1st April 2000	557,394	535,603	1,092,997
Profit for the year retained	—	478,167	478,167
At 31st March 2001	557,394	1,013,770	1,571,164

Distributable reserve of the Company at 31st March 2001, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,571,164,000 (2000: HK\$1,092,997,000).

22. DEFERRED TAXATION

The potential asset/(liability) for deferred taxation for which no provision has been made in the accounts amounts to:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	(2,663)	(2,408)	(2,663)	(2,408)
Unutilised tax losses	23,386	20,869	23,162	20,869
	20,723	18,461	20,499	18,461

NOTES TO THE ACCOUNTS

23. CAPITAL COMMITMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for				
– in respect of property, plant and equipment	19,060	20	19,060	20
– in respect of the Group's contribution to an associated company for its development of film studio and ancillary facilities	170,532	—	170,532	—
	<u>189,592</u>	<u>20</u>	<u>189,592</u>	<u>20</u>
Contracted but not provided for				
– in respect of property, plant and equipment	5,410	566	5,410	566
– in respect of the Group's contribution to an associated company for its development of film studio and ancillary facilities	2,868	909	2,868	909
	<u>8,278</u>	<u>1,475</u>	<u>8,278</u>	<u>1,475</u>
	<u>197,870</u>	<u>1,495</u>	<u>197,870</u>	<u>1,495</u>

NOTES TO THE ACCOUNTS

24. LEASE COMMITMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating lease commitments in respect of land and buildings at 31st March payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:				
– expiring in the first year	<u>80</u>	<u>336</u>	<u>80</u>	<u>336</u>

25. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions in the normal course of business during the year with related parties:

- (i) The Group provided labour and administrative services to certain related companies for management fees totalling HK\$9,302,000 (2000: HK\$11,889,000). These related companies are held by a substantial shareholder of the Company (Note 2).
- (ii) The Group received studio facilities fees of HK\$5,345,000 (2000: HK\$5,345,000) from an associated company (Note 2).
- (iii) The Group received rental income in respect of land and buildings amounting to HK\$17,732,000 (2000: HK\$17,732,000) from an associated company (Note 2).
- (iv) The Group paid interest expense on loan from a related company amounting to HK\$292,000 (2000: HK\$6,427,000). This related company is held by a substantial shareholder of the Company. The loan was fully repaid during the year (Note 8).

NOTES TO THE ACCOUNTS

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of operating profit after finance costs to net cash inflow/(outflow) from operating activities:

	2001	2000
	HK\$'000	HK\$'000
Operating profit after finance costs	472,295	77,719
Interest income	(15,299)	(2,151)
Interest expense	296	6,473
Depreciation charge	7,434	6,962
Profit on disposal of fixed assets	(26)	(3)
Gain on liquidation of a subsidiary	(84)	—
Loss on disposal of a subsidiary	—	52
Reserve realised on disposal of film library	4,890	—
Profit on disposal of interest in an associated company	—	(93)
Profit on deemed disposal of interest in an associated company	—	(90,545)
(Increase)/decrease in inventories	(15,574)	2,660
(Increase)/decrease in accounts receivable, prepayments, deposits and other receivables	(3,326)	3,886
Increase/(decrease) in creditors and accruals	8,161	(2,700)
(Decrease)/increase in deposit received	(48,000)	48,000
Increase/(decrease) in advanced rental received from an associated company	2,350	(2,313)
Increase/(decrease) in provision for long service payments	216	(132)
Decrease in loan from a related company	(19,423)	(162,232)
Exchange differences	(2)	(1)
Net cash inflow/(outflow) from operating activities	<u>393,908</u>	<u>(114,418)</u>

NOTES TO THE ACCOUNTS

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Reconciliation of interest income and expense to interest received and paid:

	2001	2000
	HK\$'000	HK\$'000
Interest income	15,299	2,151
(Increase)/decrease in interest receivable	(421)	4
Interest received	<u>14,878</u>	<u>2,155</u>
Interest expense	(296)	(6,473)
Decrease in interest payable	(29)	(1,553)
Interest paid	<u>(325)</u>	<u>(8,026)</u>

(c) Liquidation of a subsidiary

	HK\$'000
Net assets disposed of:	
Accounts receivable, prepayments and deposits	3
Bank and cash balances	35
Creditors and accruals	(29)
	<u>9</u>
Realisation of exchange reserves	(93)
Gain on liquidation	84
	<u>—</u>
Proceeds on liquidation	<u>—</u>
Satisfied by:	
Cash consideration	—
Less: Bank and cash balances disposed of	(35)
	<u>(35)</u>
Net cash outflow from liquidation of a subsidiary	<u>(35)</u>

27. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 22nd June 2001.