

## 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 (“HKSA”). The accounts are prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases (effective for period commencing on or after 1st July 2000)
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Group controls the composition of the board of directors, control more than half the voting power or hold more than half of the issued share capital.

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 unamortised goodwill and any related accumulated foreign currency translation reserve.

## NOTES TO THE ACCOUNTS

---

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (b) Consolidation *(continued)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

#### (c) 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 for impairment losses, if any. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

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 2002 are used for equity accounting purposes.

#### (d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

In accordance with SSAP 30, the Group accounts for goodwill on acquisitions occurring on or after 1st April 2001 as intangible assets and is amortised using the straight line method over its estimated useful life of not more than 20 years in general.

Goodwill on acquisitions that occurred prior to 1st April 2001 was written off against reserves in the year of acquisition.

The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However, where an indication of impairment exist, such goodwill previously written off against reserves is accounted for in accordance with SSAP 31 and any impairment losses should be recognised as an expense in the profit and loss account in the period when such impairment loss is identified.

# NOTES TO THE ACCOUNTS

---

**1. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

**(d) Goodwill** *(continued)*

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of or, for pre 1st April 2001 acquisitions, the related goodwill dealt with in the reserves to the extent it has not previously been realised in the profit and loss account.

The adoption of these standards did not have any financial effect to the Group for the year.

**(e) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write off the cost of the fixed assets less accumulated impairment losses 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%
Plant and machinery	10% – 20%

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

No depreciation is provided for certain plant and machinery until installation is completed and put in use to generate income.

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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset 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.

## NOTES TO THE ACCOUNTS

---

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (f) Inventories

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

Released films are stated at cost less accumulated amortisation and accumulated impairment losses. 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. Unreleased films, raw materials and cost of processing works are valued at cost less provision for impairment losses.

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.

#### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (h) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The adoption of SSAP 28 did not have any significant financial effect to the Group for the year.

#### (i) 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 in these cases 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.

## NOTES TO THE ACCOUNTS

---

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease periods.

#### (k) Deferred taxation

Deferred taxation is accounted for at the current taxation 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 an asset is expected to be payable or recoverable in the foreseeable future.

#### (l) Revenue recognition

- (i) Gross receipts from film distribution are recognised upon delivery of the films.
- (ii) Filming facilities services 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.

#### (m) Segmental reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated items consist primarily of management fee income, interest income less corporate expenses. Segment assets consist primarily of fixed assets, inventories and receivables, and mainly exclude investments in associated companies, fixed deposits with banks and taxation recoverable. Segment liabilities comprise operating liabilities and exclude items such as provision for staff long service payments and bank overdrafts. Capital expenditure represents additions to fixed assets (Note 13).

In respect of geographical segment reporting, revenues are based on the countries in which the customers are located. Total assets and capital expenditure are where the assets are located.

## NOTES TO THE ACCOUNTS

---

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (n) Dividends

In accordance with the revised SSAP 9, the Group and its associated companies recognise dividends as a liability in the accounting period when the dividends are proposed or declared. In previous years, the Group and its associated companies recognised dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform with the changed policy. The changes are summarised as follows:

- (i) As detailed in Note 20, this change has resulted in an increase in the Group and the Company's opening retained earnings at 1st April 2001 by HK\$59,758,000 (1st April 2000: HK\$59,758,000) which is the reversal of the provision for 2001 (2000) proposed final dividend of the Company previously recorded as a liability at 31st March 2001 (31st March 2000) although not declared until after the balance sheet date.
- (ii) As detailed in Note 20(a), this change also resulted in an increase in the Group's share of an associated company's opening retained earnings at 1st April 2001 by HK\$85,416,000 (1st April 2000: HK\$68,333,000) as a result of the associated company's reversal of its provision for 2000 (1999) proposed final dividend previously recorded as its liability at 31st December 2000 (31st December 1999) although not approved until after the balance sheet date. It also resulted in a decrease in the Group's dividend receivable from the associated company at 31st March 2001 by HK\$85,416,000 (31st March 2000: HK\$68,333,000).
- (iii) As detailed in Note 20(b), this change also resulted in a decrease in the Company's retained earnings at 1st April 2001 by HK\$85,416,000 (1st April 2000: HK\$68,333,000) and a decrease in the Company's profit for the year ended 31st March 2001 by HK\$17,083,000 as the associated company's proposed final dividend for 2000 (1999) was not approved in its annual general meeting until after 31st March 2001 (2000). It also resulted in a decrease in the Company's dividend receivable from the associated company at 31st March 2001 by HK\$85,416,000 (31st March 2000: HK\$68,333,000).

## 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, film distribution income and filming facilities services fees.

Other revenues mainly consist of management fee income and interest income.

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Rental income from land and buildings (Note 24(iii))	18,303	18,428
Film distribution income	47,428	8,289
Filming facilities services fees (Note 24(ii))	6,749	6,426
	<u>72,480</u>	<u>33,143</u>
Other revenues		
Management fee income (Note 24(i))	9,827	10,260
Interest income	11,957	15,299
Others	4,713	1,624
	<u>26,497</u>	<u>27,183</u>
Total revenues	<u>98,977</u>	<u>60,326</u>

# NOTES TO THE ACCOUNTS

---

## 2. TURNOVER AND REVENUES *(continued)*

### Primary reporting format – business segments

The Group is principally engaged in operations relating to the media and entertainment industries through the following three major business segments:

Property rental	: Leases of properties for rentals
Film distribution	: Distribution of films for theatrical income and royalty income
Filming facilities services	: Provision of studio sites and filming facilities for income

The Group’s inter-segment transactions mainly consists of colour laboratory film processing works, as well as provision of administration and accounting services. Colour laboratory film processing works were provided at similar terms as that contracted with third parties. Administration and accounting services were charged on a cost reimbursement basis.

### Secondary reporting format – geographical segments

Although the Group’s three business segments are managed on a worldwide basis, they operate in four main geographical areas:

Hong Kong	: Property rental, film distribution and filming facilities services
South East Asia, USA and others	: Film distribution

There are no sales between the geographical segments.



## NOTES TO THE ACCOUNTS

### 2. TURNOVER AND REVENUES (continued)

#### Primary reporting format – business segments

	Property rental 2002 <u>HK\$'000</u>	Film distribution 2002 <u>HK\$'000</u>	Filming facilities services 2002 <u>HK\$'000</u>	Group total 2002 <u>HK\$'000</u>
Turnover (Note)	<u>18,303</u>	<u>47,428</u>	<u>6,749</u>	<u>72,480</u>
Segment results	<u>13,584</u>	<u>(5,338)</u>	<u>(10,691)</u>	<u>(2,445)</u>
Unallocated items				<u>(5,238)</u>
Operating loss				<u>(7,683)</u>
Finance costs				<u>(6)</u>
Share of profits less losses of associated companies				<u>183,921</u>
Profit before taxation				<u>176,232</u>
Taxation				<u>(28,897)</u>
Profit attributable to shareholders				<u>147,335</u>
Segment assets	119,316	31,765	95,174	246,255
Associated companies				860,437
Taxation recoverable				105
Unallocated assets				<u>335,464</u>
Total assets				<u>1,442,261</u>
Segment liabilities	2,291	6,802	2,875	11,968
Unallocated liabilities				<u>12,773</u>
Total liabilities				<u>24,741</u>
Capital expenditure	<u>–</u>	<u>–</u>	<u>44,029</u>	<u>44,029</u>
Depreciation charge	<u>4,083</u>	<u>–</u>	<u>4,275</u>	<u>8,358</u>
Amortisation of released films	<u>–</u>	<u>42,720</u>	<u>–</u>	<u>42,720</u>

Note:

Turnover from external customers is after eliminating inter-segment transactions amounting to HK\$4,444,000 attributable to filming facilities services.

## NOTES TO THE ACCOUNTS

### 2. TURNOVER AND REVENUES *(continued)*

#### Primary reporting format – business segments *(continued)*

	Property rental 2001	Film distribution 2001	Filming facilities services 2001	Group total 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover (Note)	18,428	8,289	6,426	33,143
Segment results	13,361	62	(5,434)	7,989
Unallocated items				(7,378)
Gain on disposal of film library				471,980
Operating profit				472,591
Finance costs				(296)
Share of profits less losses of associated companies				237,968
Profit before taxation				710,263
Taxation				(36,566)
Profit attributable to shareholders				673,697
Segment assets	122,276	23,409	50,988	196,673
Associated companies				812,490
Taxation recoverable				105
Unallocated assets				391,173
Total assets				1,400,441
Segment liabilities	3,412	8,278	2,184	13,874
Unallocated liabilities				11,726
Total liabilities				25,600
Capital expenditure	140	–	6,648	6,788
Depreciation charge	4,083	–	3,351	7,434
Amortisation of released films	–	5,629	–	5,629

*Note:*

Turnover from external customers is after eliminating inter-segment transactions amounting to HK\$679,000 attributable to filming facilities services.

## NOTES TO THE ACCOUNTS

### 2. TURNOVER AND REVENUES (continued)

#### Secondary reporting format – geographical segments

	Turnover		Segment results		Total assets		Capital expenditure	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	56,755	26,974	(9,842)	(1,763)	581,719	587,846	44,029	6,788
South East Asia	11,617	4,523	1,626	905	-	-	-	-
USA	1,250	100	138	30	-	-	-	-
Others	2,858	1,546	395	1,439	-	-	-	-
	<u>72,480</u>	<u>33,143</u>	<u>(7,683)</u>	<u>611</u>	<u>581,719</u>	<u>587,846</u>	<u>44,029</u>	<u>6,788</u>
Gain on disposal of film library			-	471,980				
Operating (loss)/profit			<u>(7,683)</u>	<u>472,591</u>				
Associated companies					860,437	812,490		
Tax recoverable					105	105		
					<u>1,442,261</u>	<u>1,400,441</u>		

### 3. OPERATING (LOSS)/PROFIT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Operating (loss)/profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gross rental income less outgoings	17,939	18,053
Exchange gain	-	23
Gain on liquidation of a subsidiary	-	84
Management fee income (Note 2)	9,827	10,260
	<u>27,766</u>	<u>28,420</u>
<u>Charging</u>		
Amortisation of released films	42,720	5,629
Depreciation charge	8,358	7,434
Exchange loss	97	-
Staff costs (including directors' remuneration)	31,390	30,351
Operating leases – land and buildings	396	400
Retirement benefit costs (Note 8)	890	306
Auditors' remuneration	335	335
	<u>84,186</u>	<u>44,455</u>

## NOTES TO THE ACCOUNTS

### 4. DIRECTORS' EMOLUMENTS

	2002	2001
	HK\$'000	HK\$'000
Fees	74	50
Salaries, housing and other allowances	7,324	5,499
Bonuses	435	315
Contribution to retirement scheme	24	5
	<u>7,857</u>	<u>5,869</u>

The emoluments paid to independent non-executive directors included above are directors' fees amounting to HK\$40,000 (2001: HK\$24,000).

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

Emolument bands	Number of directors	
	2002	2001
HK\$nil – HK\$1,000,000	7	8
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	1	1
	<u>9</u>	<u>9</u>

### 5. FIVE HIGHEST PAID EMPLOYEES

Among the five highest paid employees, four (2001: three) are directors whose emoluments are disclosed in Note 4 above. The emoluments of the other one (2001: two) employee are analysed as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries, housing and other allowances	1,812	3,694
Bonuses	154	274
Contribution to retirement scheme	12	7
	<u>1,978</u>	<u>3,975</u>
Emolument bands	Number of employees	
	2002	2001
HK\$1,500,000 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	1
	<u>1</u>	<u>2</u>

## NOTES TO THE ACCOUNTS

---

### 6. 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 $\frac{1}{3}$ % 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 represented the excess of the consideration over the book value of the film library less outgoings incurred. This gain is considered capital in nature.

### 7. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest expense on		
– bank overdrafts	6	4
– loan from a related company wholly repayable within five years (Note 24(iv))	–	292
	<u>6</u>	<u>296</u>

## NOTES TO THE ACCOUNTS

---

### 8. RETIREMENT BENEFIT COSTS

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

### 9. TAXATION

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the year (2001: Nil). Tax on overseas profits has been calculated, where applicable, at the rates of taxation prevailing in the countries in which the Group operates.

	Group	
	2002	2001
	HK\$'000	HK\$'000
Associated companies:		
Hong Kong profits tax	24,570	33,217
Over provisions in prior years	(11,654)	–
Overseas taxation	2,176	2,838
Deferred taxation	13,805	511
	<u>28,897</u>	<u>36,566</u>
Deferred tax charge/(credit) for the year has not been provided for in respect of the following:		
	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	198	255
Unutilised taxation losses	(4,129)	(2,517)
	<u>(3,931)</u>	<u>(2,262)</u>

## NOTES TO THE ACCOUNTS

---

### 10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$110,160,000 (2001 as restated: HK\$560,681,000).

### 11. APPROPRIATIONS

	2002	2001
	HK\$'000	HK\$'000
Interim dividend paid, HK\$0.10 (2001: HK\$0.10) per ordinary share	39,839	39,839
Final dividend proposed, HK\$0.15 (2001: HK\$0.15) per ordinary share	59,758	59,758
	<u>99,597</u>	<u>99,597</u>

*Notes:*

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st March 2000 and 2001 were HK\$59,758,000 for both years. Under the Group's new accounting policy as described in Note 1(n), these have been written back against opening reserves as at 1st April 2000 and 2001 in Note 20 and are now charged in the period in which they were declared.
- (b) At a meeting held on 26th June 2002 the directors proposed a final dividend of HK\$0.15 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2003.

### 12. EARNINGS PER SHARE

The calculation of earnings per share is based on earnings for the year of HK\$147,335,000 (2001: HK\$673,697,000) and on 398,390,400 ordinary shares in issue throughout the two years ended 31st March.

## NOTES TO THE ACCOUNTS

### 13. FIXED ASSETS

#### Group and Company

	Hong Kong medium term lease land and buildings (Note)	Motor vehicles, furniture, fittings and equipment	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>				
At 1st April 2001	173,485	74,189	–	247,674
Reclassification	–	(15,155)	15,155	–
Additions	45	1,890	42,094	44,029
Disposals	–	(1,192)	–	(1,192)
	<u>173,530</u>	<u>59,732</u>	<u>57,249</u>	<u>290,511</u>
At 31st March 2002	<u>173,530</u>	<u>59,732</u>	<u>57,249</u>	<u>290,511</u>
<b>Accumulated depreciation</b>				
At 1st April 2001	30,918	48,814	–	79,732
Reclassification	–	(9,881)	9,881	–
Charge for the year	3,151	3,777	1,430	8,358
Written back on disposals	–	(1,157)	–	(1,157)
	<u>34,069</u>	<u>41,553</u>	<u>11,311</u>	<u>86,933</u>
At 31st March 2002	<u>34,069</u>	<u>41,553</u>	<u>11,311</u>	<u>86,933</u>
<b>Net book value</b>				
At 31st March 2002	<u>139,461</u>	<u>18,179</u>	<u>45,938</u>	<u>203,578</u>
At 31st March 2001	<u>142,567</u>	<u>25,375</u>	<u>–</u>	<u>167,942</u>

*Note:*

Included in land and buildings of the Company and the Group is a property carried at cost less accumulated depreciation amounting to HK\$134,733,000 (2001: HK\$137,725,000). 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.



## NOTES TO THE ACCOUNTS

---

### 14. SUBSIDIARIES

(a)

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,910	4,910
Less: provisions	<u>(4,900)</u>	<u>(4,900)</u>
	10	10
Amounts due from subsidiaries (Note b)	39,204	17,423
Amounts due to subsidiaries (Note b)	<u>(10,110)</u>	<u>(10,132)</u>
	<u>29,104</u>	<u>7,301</u>

(b) Except for an amount due from a subsidiary of HK\$29,568,000 (2001: HK\$16,045,000) which carries interest at Hong Kong Dollar prime lending rate per annum, the amounts due from/to subsidiaries are unsecured and interest free, and have no fixed repayment terms.

## NOTES TO THE ACCOUNTS

---

### 14. SUBSIDIARIES (continued)

(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 2002 by	
					Group	Company
Film Power Company Limited	Hong Kong	Film production and distribution	10	HK\$1	60%	–
Super Film Production Company Limited	Hong Kong	Film production and distribution	2	HK\$1	100%	–
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\$10	100%	100%
United Production Limited	Hong Kong	Dormant	2	HK\$1	100%	100%
* Pearl River Film Productions Limited	Hong Kong	Dormant (since liquidated)	10,000	HK\$1	100%	100%

\* Company not audited by PricewaterhouseCoopers.

## NOTES TO THE ACCOUNTS

### 15. ASSOCIATED COMPANIES

(a)

	Group	
	2002	2001 Restated (Note 1(n))
	HK\$'000	HK\$'000
Share of net assets	817,661	775,890
Loan to an associated company	42,776	36,600
	<u>860,437</u>	<u>812,490</u>
	Company	
	2002	2001
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	3	3
Listed shares	1,053,250	1,053,250
	<u>1,053,253</u>	<u>1,053,253</u>
Loan to an associated company	42,776	36,600
	<u>1,096,029</u>	<u>1,089,853</u>
Market value of listed shares	<u>4,134,157</u>	<u>4,851,656</u>

Profit for the year retained by associated companies amounts to HK\$46,830,000 (2001 as restated: HK\$110,291,000).

- (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 (2001 as restated: HK\$91,111,000).

## NOTES TO THE ACCOUNTS

---

### 15. ASSOCIATED COMPANIES *(continued)*

(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 2002 by	
			Group	Company
Television Broadcasts Limited	Hong Kong	Television broadcasting	26.00%	26.00%
Goldway Holdings Limited	British Virgin Islands/ Hong Kong	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

### 15. ASSOCIATED COMPANIES *(continued)*

#### EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2001

	2001	2000
	HK\$'000	Restated HK\$'000
Turnover	3,264,630	3,489,941
Cost of sales	(1,669,684)	(1,674,110)
Gross profit	1,594,946	1,815,831
Other revenues	83,173	108,679
Government royalty	–	(104,717)
Selling and distribution costs	(450,703)	(490,052)
General and administrative expenses	(519,311)	(529,234)
Other operating expenses	(3,460)	(14,439)
Gain on deemed disposal of subsidiaries	–	129,393
Operating profit	704,645	915,461
Finance costs	(23,163)	(20,929)
Share of profits less losses of		
Associated companies	4,942	5,633
Jointly controlled entities	(16,154)	(10,806)
Profit before taxation	670,270	889,359
Taxation	(111,133)	(140,626)
Profit after taxation	559,137	748,733
Minority interests	37,113	25,418
Profit attributable to shareholders	596,250	774,151

## NOTES TO THE ACCOUNTS

### 15. ASSOCIATED COMPANIES *(continued)*

#### EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

#### CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER 2001

	2001	2000 Restated
	HK\$'000	HK\$'000
Fixed assets	1,653,700	991,768
Jointly controlled entities	104,753	107,184
Associated companies	19,247	15,847
Investment in securities	4,550	47,956
Loans to investee companies	10,824	11,485
Current assets		
Programmes and film rights	532,481	457,827
Stocks	24,837	56,308
Trade and other receivables, prepayments and deposits	1,146,967	1,108,548
Investment in securities	49,825	61,405
Pledged bank deposits	7,134	5,850
Cash and bank balances	673,062	1,319,580
Deferred taxation	–	776
	<u>2,434,306</u>	<u>3,010,294</u>
Current liabilities		
Trade and other payables and accruals	692,005	727,112
Short term bank loans, secured	175,947	190,234
Bank overdrafts	37,579	47,392
Current portion of long term liabilities	20,911	18,577
Taxation	30,089	79,367
Provision for government royalty	–	14,902
	<u>956,531</u>	<u>1,077,584</u>
Net current assets	<u>1,477,775</u>	<u>1,932,710</u>
	<u>3,270,849</u>	<u>3,106,950</u>
Financed by:		
Share capital	21,900	21,900
Reserves	3,122,201	2,961,508
Shareholders' funds	3,144,101	2,983,408
Minority interests	2,068	45,256
Long term liabilities	72,242	78,286
Deferred taxation	52,438	–
	<u>3,270,849</u>	<u>3,106,950</u>

## NOTES TO THE ACCOUNTS

### 16. INVENTORIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Released films	18,655	5,334	–	–
Unreleased films	10,524	13,396	–	–
Raw materials and processing work	555	333	555	333
	<u>29,734</u>	<u>19,063</u>	<u>555</u>	<u>333</u>

### 17. ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note)	1,348	3,488	67	289
Prepayments, deposits and other receivables	13,658	7,452	12,746	5,889
	<u>15,006</u>	<u>10,940</u>	<u>12,813</u>	<u>6,178</u>

*Note:*

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

At 31st March 2002, the ageing analysis of the trade receivables were as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	873	2,547	16	–
1 – 3 months	84	681	–	114
Over 3 months	391	260	51	175
	<u>1,348</u>	<u>3,488</u>	<u>67</u>	<u>289</u>

## NOTES TO THE ACCOUNTS

### 18. CREDITORS AND ACCRUALS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note)	663	1,182	–	–
Other payables and accruals	18,442	19,713	11,736	12,016
	<u>19,105</u>	<u>20,895</u>	<u>11,736</u>	<u>12,016</u>

*Note:*

At 31st March 2002, the ageing analysis of the trade payables were as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 – 3 months	–	1,177	–	–
Over 3 months	663	5	–	–
	<u>663</u>	<u>1,182</u>	<u>–</u>	<u>–</u>

### 19. SHARE CAPITAL

	2002	2001
	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

### 20. RESERVES

#### (a) Group

	Legal reserve	Capital reserve	Exchange fluctuation reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2000					
Company and subsidiaries					
– as previously reported	–	38,266	95	218,696	257,057
– effect of adopting SSAP 9 (revised) in respect of:					
– 2000 Final dividend of the Company (Note 1(n)(i))	–	–	–	59,758	59,758
– 1999 Final dividend from an associated company (Note 1(n)(ii))	–	–	–	(68,333)	(68,333)
– as restated	–	38,266	95	210,121	248,482
Associated companies					
– as previously reported	–	–	1,000	379,853	380,853
– effect of adopting SSAP 9 (revised) in respect of 1999 Final dividend (Note 1(n)(ii))	–	–	–	68,333	68,333
– as restated	–	–	1,000	448,186	449,186
At 1st April 2000, as restated	–	38,266	1,095	658,307	697,668
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	–	–	–	673,697	673,697
2000 Final dividend paid (Note 11)	–	–	–	(59,758)	(59,758)
2001 Interim dividend paid (Note 11)	–	–	–	(39,839)	(39,839)
Transfer	–	(10,478)	–	10,478	–
At 31st March 2001, as restated	<u>1,942</u>	<u>32,982</u>	<u>1,158</u>	<u>1,239,161</u>	<u>1,275,243</u>
Representing:					
Retained profit				1,179,403	
2001 Final dividend proposed (Note 11)				59,758	
At 31st March 2001				<u>1,239,161</u>	
Company and subsidiaries	–	32,678	–	684,408	717,086
Associated companies	1,942	304	1,158	554,753	558,157
At 31st March 2001, as restated	<u>1,942</u>	<u>32,982</u>	<u>1,158</u>	<u>1,239,161</u>	<u>1,275,243</u>

## NOTES TO THE ACCOUNTS

### 20. RESERVES (continued)

#### (a) Group (continued)

	Legal reserve	Capital reserve	Exchange fluctuation reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2001					
Company and subsidiaries					
– as previously reported	–	32,678	–	710,066	742,744
– effect of adopting SSAP 9 (revised) in respect of:					
– 2001 Final dividend of the Company (Note 1(n)(i))	–	–	–	59,758	59,758
– 2000 Final dividend from an associated company (Note 1(n)(ii))	–	–	–	(85,416)	(85,416)
– as restated	–	32,678	–	684,408	717,086
Associated companies					
– as previously reported	1,942	304	1,158	469,337	472,741
– effect of adopting SSAP 9 (revised) in respect of 2000 Final dividend (Note 1(n)(ii))	–	–	–	85,416	85,416
– as restated	1,942	304	1,158	554,753	558,157
At 1st April 2001, as restated	1,942	32,982	1,158	1,239,161	1,275,243
Share of reserve movements of an associated company	–	–	(3,614)	(1,445)	(5,059)
Profit for the year	–	–	–	147,335	147,335
2001 Final dividend paid (Note 11)	–	–	–	(59,758)	(59,758)
2002 Interim dividend paid (Note 11)	–	–	–	(39,839)	(39,839)
At 31st March 2002	<u>1,942</u>	<u>32,982</u>	<u>(2,456)</u>	<u>1,285,454</u>	<u>1,317,922</u>
Representing:					
Retained profit				1,225,696	
2002 Final dividend proposed (Note 11)				59,758	
At 31st March 2002				<u>1,285,454</u>	
Company and subsidiaries	–	32,678	–	685,316	717,994
Associated companies	<u>1,942</u>	<u>304</u>	<u>(2,456)</u>	<u>600,138</u>	<u>599,928</u>
At 31st March 2002	<u>1,942</u>	<u>32,982</u>	<u>(2,456)</u>	<u>1,285,454</u>	<u>1,317,922</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

### 20. RESERVES (continued)

#### (b) Company

	General reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April 2000,			
– as previously reported	557,394	535,603	1,092,997
– effect of adopting SSAP 9 (revised) in respect of:			
– 2000 Final dividend of the Company (Note 1(n)(i))	–	59,758	59,758
– 1999 Final dividend from an associated company (Note 1(n)(iii))	–	(68,333)	(68,333)
– as restated	557,394	527,028	1,084,422
Profit for the year			
– as previously reported	–	577,764	577,764
– effect of adopting SSAP 9 (revised) in respect of:			
– 1999 Final dividend from an associated company (Note 1(n)(iii))	–	68,333	68,333
– 2000 Final dividend from an associated company (Note 1(n)(iii))	–	(85,416)	(85,416)
– as restated	–	560,681	560,681
2000 Final dividend paid (Note 11)	–	(59,758)	(59,758)
2001 Interim dividend paid (Note 11)	–	(39,839)	(39,839)
At 31st March 2001, as restated	<u>557,394</u>	<u>988,112</u>	<u>1,545,506</u>
Representing:			
Retained profit		928,354	
2001 Final dividend proposed (Note 11)		59,758	
At 31st March 2001		<u>988,112</u>	
At 1st April 2001,			
– as previously reported	557,394	1,013,770	1,571,164
– effect of adopting SSAP 9 (revised) in respect of:			
– 2001 Final dividend of the Company (Note 1(n)(i))	–	59,758	59,758
– 2000 Final dividend from an associated company (Note 1(n)(iii))	–	(85,416)	(85,416)
– as restated	557,394	988,112	1,545,506
Profit for the year	–	110,160	110,160
2001 Final dividend paid (Note 11)	–	(59,758)	(59,758)
2002 Interim dividend paid (Note 11)	–	(39,839)	(39,839)
At 31st March 2002	<u>557,394</u>	<u>998,675</u>	<u>1,556,069</u>
Representing:			
Retained profit		938,917	
2002 Final dividend proposed (Note 11)		59,758	
At 31st March 2002		<u>998,675</u>	

Distributable reserves of the Company at 31st March 2002, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,556,069,000 (2001 as restated: HK\$1,545,506,000).

## NOTES TO THE ACCOUNTS

### 21. DEFERRED TAXATION

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

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	(2,861)	(2,663)	(2,861)	(2,663)
Unutilised tax losses	27,515	23,386	25,841	23,162
	<u>24,654</u>	<u>20,723</u>	<u>22,980</u>	<u>20,499</u>

### 22. CAPITAL COMMITMENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for				
– in respect of property, plant and equipment	–	19,060	–	19,060
– in respect of the Group's contribution to an associated company for its development of film studio and ancillary facilities	162,442	170,532	162,442	170,532
	<u>162,442</u>	<u>189,592</u>	<u>162,442</u>	<u>189,592</u>
Contracted but not provided for				
– in respect of property, plant and equipment	11,077	5,410	11,077	5,410
– in respect of the Group's contribution to an associated company for its development of film studio and ancillary facilities	4,782	2,868	4,782	2,868
	<u>15,859</u>	<u>8,278</u>	<u>15,859</u>	<u>8,278</u>
	<u>178,301</u>	<u>197,870</u>	<u>178,301</u>	<u>197,870</u>

## NOTES TO THE ACCOUNTS

### 23. LEASE COMMITMENTS

- (a) At 31st March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	84	80	84	80

- (b) At 31st March 2002, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	17,809	17,809	17,809	17,809
Later than one year and not later than five years	39,896	57,628	39,896	57,628
	<u>57,705</u>	<u>75,437</u>	<u>57,705</u>	<u>75,437</u>

### 24. 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\$8,688,000 (2001: HK\$9,302,000). The fees for these services were determined by contract agreed between the parties. These related companies are held by a substantial shareholder of the Company (Note 2).
- (ii) The Group received filming facilities services fees of HK\$5,345,000 (2001: HK\$5,345,000) from an associated company (Note 2). The fees for these facilities were determined by contract between both parties.
- (iii) The Group received rental income in respect of land and buildings amounting to HK\$17,732,000 (2001: HK\$17,732,000) from an associated company (Note 2).
- (iv) Interest expense on loan from a related company amounted to HK\$292,000 for the year ended 31st March 2001. The loan was fully repaid before 31st March 2001 (Note 7). The related company is held by a substantial shareholder of the Company.

## NOTES TO THE ACCOUNTS

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002	2001
	HK\$'000	HK\$'000
Operating (loss)/profit after finance costs	(7,689)	472,295
Interest income	(11,957)	(15,299)
Interest expense	6	296
Depreciation charge	8,358	7,434
Gain on disposal of fixed assets	(15)	(26)
Gain on liquidation of a subsidiary	–	(84)
Reserve realised on disposal of film library	–	4,890
Increase in inventories	(10,671)	(15,574)
Decrease/(increase) in accounts receivable, prepayments, deposits and other receivables	232	(3,326)
(Decrease)/increase in creditors and accruals	(352)	8,161
(Decrease)/increase in provision for staff long service payments	(39)	216
Decrease in deposit received	–	(48,000)
Increase in advanced rental received from an associated company	–	2,350
Decrease in loan from a related company	–	(19,423)
Exchange differences	–	(2)
Net cash (outflow)/inflow from operating activities	<u>(22,127)</u>	<u>393,908</u>

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

	2002	2001
	HK\$'000	HK\$'000
Interest income	11,957	15,299
Increase in interest receivable	(53)	(421)
Interest received	<u>11,904</u>	<u>14,878</u>
Interest expense	(6)	(296)
Decrease in interest payable	–	(29)
Interest paid	<u>(6)</u>	<u>(325)</u>

## NOTES TO THE ACCOUNTS

---

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Liquidation of a subsidiary

	<u>2001</u>
	HK\$'000
Net assets disposed of:	
Accounts receivable, prepayments and deposits	3
Bank and cash balances	35
Creditors and accruals	<u>(29)</u>
	9
Realisation of exchange reserves	(93)
Gain on liquidation	<u>84</u>
	—
Proceeds on liquidation	<u>—</u>
Satisfied by:	
Cash consideration	—
Less: Bank and cash balances disposed of	<u>(35)</u>
	—
Net cash outflow from liquidation of a subsidiary	<u>(35)</u>

### 26. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 26th June 2002.