

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 (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 33	: Discontinuing operations
SSAP 34	: Employee benefits

Except for the restatement of prior years’ balances following the adoption of SSAP 34 “Employee benefits” as referred to in Note 1(i)(i) and Note 20, the adoption of these new and revised policies has no material impact on the accounts of the Company and the Group in the current and prior years. Certain presentational changes, however, have been made upon the adoption of SSAP 1 (revised): “Presentation of financial statements” and SSAP 15 (revised): “Cash flow statements”.

(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 of 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 or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account 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.

(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 Company's investments in associated companies are carried at cost less provision for impairment losses, if any. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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 2003 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.

(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.

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, direct labour, costs of film processing and film remastering works and an appropriate proportion of all processing overhead expenditure.

(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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and net with bank overdrafts.

(i) Employee benefits

(i) Employee leave entitlements

SSAP 34 specifies that employee entitlements to annual leave shall be recognised when they accrue to employees. A provision shall be made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits *(continued)*

(i) Employee leave entitlements (continued)

In prior years, no provision was made by the Group and an associate company in respect of the employee annual leave entitlements. Upon the adoption of SSAP 34, retrospective adjustments have been made by the Group and the associated company to provide for employee annual leave entitlements and hence the comparatives presented have been restated. The changes are summarised as follows:

- (a) As detailed in Note 20, this change has resulted in a decrease in the Group's and the Company's opening retained profits at 1st April 2002 by HK\$538,000 (1st April 2001: HK\$510,000) which represents the Group's and the Company's provision for employee annual leave entitlements previously not recognised at 31st March 2002 and 2001. It also resulted in an increase in current liabilities at 31st March 2002 by HK\$538,000 and the amount charged to the profit and loss account for the year ended 31st March 2002 by HK\$28,000.
- (b) As detailed in Note 20(a), this change has resulted in a decrease in the Group's share of the associated company's opening retained profits at 1st April 2002 by HK\$12,865,000 (1st April 2001: HK\$11,092,000) which represents the Group's share of provision for employee annual leave entitlements previously not recognised by the associated company. It also resulted in a decrease in the Group's share of profits of the associated company for the year ended 31st March 2002 by HK\$1,773,000.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group has a Mandatory Provident Fund Scheme ("MPF Scheme") which is set up in accordance with the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held in a separately administered fund.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits *(continued)*

(iii) Pension obligations (continued)

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 the individual's "relevant income" as prescribed in the Mandatory Provident Fund Schemes Ordinance with a maximum amount of HK\$1,000 per month.

The Group's contributions to the MPF Scheme are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

(j) Provisions

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.

Provision for staff long service payments is calculated in accordance with the Hong Kong Employment Ordinance and is net of any amounts that would be expected to be met out of the Group's MPF Scheme.

(k) 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 balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising are dealt with as a movement in the exchange fluctuation reserve.

(l) 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.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) 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.

(n) Revenue recognition

- (i) Rental income from land and buildings is recognised on a straight-line basis over the terms of the lease.
- (ii) Gross receipts from film distribution are recognised upon delivery of the films.
- (iii) Filming facilities services fees comprise of studio service fees, film processing and film remastering income. Studio service fees are recognised when the facilities are used. Film processing income is recognised upon delivery of the films. Film remastering income is recognised on acceptance of film quality by the customers.
- (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.

(o) Segment 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, bank and cash balances 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.

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.

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.

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES (continued)

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	
	2003	2002
	HK\$'000	HK\$'000
Turnover		
Rental income from land and buildings	18,141	18,303
Film distribution income	13,965	47,428
Filming facilities services fees	30,336	6,749
	<u>62,442</u>	<u>72,480</u>
Other revenues		
Management fee income	10,024	9,827
Interest income	5,960	11,957
Others	1,799	4,713
	<u>17,783</u>	<u>26,497</u>
Total revenues	<u>80,225</u>	<u>98,977</u>

Primary reporting format – business segments

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries through the following 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
Investment holding	: Investments in associated companies

The Group's inter-segment transactions mainly consists of film processing works, as well as provision of administration and accounting services. 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.

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES *(continued)*

Primary reporting format – business segments *(continued)*

	Property rental 2003 HK\$'000	Film distribution 2003 HK\$'000	Filming facilities services 2003 HK\$'000	Investment holding 2003 HK\$'000	Group total 2003 HK\$'000
Turnover (Note)	18,141	13,965	30,336	–	62,442
Segment results	12,708	(10,045)	(655)	(6,461)	(4,453)
Unallocated items					(5,433)
Operating loss					(9,886)
Finance costs					(1)
Share of profits less losses of associated companies	–	–	–	176,350	176,350
Profit before taxation					166,463
Taxation					(23,418)
Profit attributable to shareholders					143,045
Segment assets	116,122	21,360	114,897	–	252,379
Associated companies	–	–	–	926,365	926,365
Taxation recoverable					106
Unallocated assets					311,194
Total assets					1,490,044
Segment liabilities	2,262	4,896	3,718	–	10,876
Unallocated liabilities					10,179
Total liabilities					21,055
Capital expenditure	50	–	24,950	–	25,000
Depreciation charge	4,084	–	12,336	–	16,420
Amortisation of released films	–	21,926	–	–	21,926

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$1,095,000 attributable to filming facilities services.

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES (continued)

Primary reporting format – business segments (continued)

	Property rental 2002 HK\$'000	Film distribution 2002 HK\$'000	Filming facilities services 2002 HK\$'000	Investment holding 2002 HK\$'000	Group total 2002 HK\$'000
Turnover (Note)	18,303	47,428	6,749	–	72,480
Segment results	13,432	(5,442)	(11,099)	(6,251)	(9,360)
Unallocated items					1,649
Operating loss					(7,711)
Finance costs					(6)
Share of profits less losses of associated companies (Note 1(i)(i)(b))	–	–	–	182,148	182,148
Profit before taxation					174,431
Taxation					(28,897)
Profit attributable to shareholders					145,534
Segment assets	119,316	31,765	95,174	–	246,255
Associated companies (Note 1(i)(i)(b))	–	–	–	847,572	847,572
Taxation recoverable					105
Unallocated assets					335,464
Total assets					1,429,396
Segment liabilities	2,291	6,833	3,047	–	12,171
Unallocated liabilities					13,108
Total liabilities (Note 1(i)(i)(a))					25,279
Capital expenditure	–	–	44,029	–	44,029
Depreciation charge	4,083	–	4,275	–	8,358
Amortisation of released films	–	42,720	–	–	42,720

Note:

Turnover 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)

Secondary reporting format – geographical segments

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

Hong Kong : Property rental, film distribution, filming facilities services and investment holding

South East Asia,
USA and others : Film distribution

There are no sales between the geographical segments.

	Turnover		Operating profit/(loss) before finance costs		Total assets		Capital expenditure	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	54,839	56,755	(5,064)	(9,870)	563,573	581,719	25,000	44,029
South East Asia	7,109	11,617	(4,655)	1,626	-	-	-	-
USA	230	1,250	24	138	-	-	-	-
Others	264	2,858	(191)	395	-	-	-	-
	<u>62,442</u>	<u>72,480</u>	<u>(9,886)</u>	<u>(7,711)</u>	<u>563,573</u>	<u>581,719</u>	<u>25,000</u>	<u>44,029</u>
Associated companies (Note 1(i)(i)(b))					926,365	847,572		
Tax recoverable					106	105		
					<u>1,490,044</u>	<u>1,429,396</u>		

NOTES TO THE ACCOUNTS

3. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2003	2002
	HK\$'000	HK\$'000
<u>Crediting</u>		
Gross rental income less outgoings	17,768	17,939
<u>Charging</u>		
Depreciation charge	18,891	8,358
Less: amounts capitalised to inventories	(2,471)	—
	16,420	8,358
Amortisation of released films	21,926	42,720
Exchange loss	11	97
Staff costs (Note 9)	34,556	32,308
Operating leases – land and buildings	404	396
Auditors' remuneration	307	335

4. FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest expense on bank overdrafts	1	6

NOTES TO THE ACCOUNTS

5. TAXATION

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the year (2002: Nil). Tax on overseas profits has been calculated, where applicable, at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents the Group's share of taxation attributable to associated companies:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	21,020	24,570
Under/(over) provisions in prior years	406	(11,654)
Overseas taxation	1,153	2,176
Deferred taxation	839	13,805
	<u>23,418</u>	<u>28,897</u>

Deferred tax charge/(credit) for the year has not been provided for in respect of the following:

	2003	2002
	HK\$'000	HK\$'000
Accelerated depreciation allowances	5,041	198
Unutilised taxation losses	(10,965)	(4,129)
	<u>(5,924)</u>	<u>(3,931)</u>

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$88,125,000 (2002 as restated: HK\$110,132,000).

NOTES TO THE ACCOUNTS

7. DIVIDENDS

	2003	2002
	<u>HK\$'000</u>	<u>HK\$'000</u>
Interim dividend paid, HK\$0.05 (2002: HK\$0.10) per ordinary share	19,920	39,839
Final dividend proposed, HK\$0.20 (2002: HK\$0.15) per ordinary share	<u>79,677</u>	<u>59,758</u>
	<u>99,597</u>	<u>99,597</u>

At a meeting held on 25th June 2003, the Directors proposed a final dividend of HK\$0.20 per ordinary share for the year ended 31st March 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March 2004.

8. EARNINGS PER SHARE

The calculation of earnings per share is based on earnings for the year of HK\$143,045,000 (2002 as restated: HK\$145,534,000) and on 398,390,400 ordinary shares in issue throughout the two years ended 31st March 2003.

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	<u>HK\$'000</u>	<u>HK\$'000</u>
Directors' fees	66	74
Salaries, housing and other allowances	33,895	29,608
Bonuses	1,280	1,736
Pension costs – MPF Scheme	<u>984</u>	<u>890</u>
	36,225	32,308
Less: amounts capitalised to inventories	<u>(1,669)</u>	<u>–</u>
	<u>34,556</u>	<u>32,308</u>

NOTES TO THE ACCOUNTS

10. DIRECTORS' EMOLUMENTS

	2003	2002
	HK\$'000	HK\$'000
Fees	66	74
Salaries, housing and other allowances	7,382	7,324
Bonuses	1,120	435
Pension costs – MPF Scheme	24	24
	<u>8,592</u>	<u>7,857</u>

Directors' fees disclosed above include HK\$32,000 (2002: HK\$40,000) paid to independent non-executive directors.

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

Emolument bands	Number of directors	
	2003	2002
Nil – HK\$1,000,000	7	7
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,000,001 – HK\$3,500,000	2	–
HK\$3,500,001 – HK\$4,000,000	–	1
	<u>9</u>	<u>9</u>

11. FIVE HIGHEST PAID EMPLOYEES

Among the five highest paid employees, four (2002: four) are directors whose emoluments are disclosed in Note 10 above. The emoluments of the other one (2002: one) employee are analysed as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries, housing and other allowances	901	1,812
Bonuses	179	154
Pension costs – MPF Scheme	6	12
	<u>1,086</u>	<u>1,978</u>

Emolument bands	Number of directors	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>1</u>	<u>1</u>

NOTES TO THE ACCOUNTS

12. FIXED ASSETS

Group and Company

	Hong Kong medium term lease land and buildings (Note) <u>HK\$'000</u>	Motor vehicles, furniture, fittings and equipment <u>HK\$'000</u>	Plant and machinery <u>HK\$'000</u>	Total <u>HK\$'000</u>
Cost				
At 1st April 2002	173,530	59,732	57,249	290,511
Additions	62	956	23,982	25,000
Disposals	—	(324)	—	(324)
At 31st March 2003	<u>173,592</u>	<u>60,364</u>	<u>81,231</u>	<u>315,187</u>
Accumulated depreciation				
At 1st April 2002	34,069	41,553	11,311	86,933
Charge for the year	3,152	3,696	12,043	18,891
Written back on disposals	—	(299)	—	(299)
At 31st March 2003	<u>37,221</u>	<u>44,950</u>	<u>23,354</u>	<u>105,525</u>
Net book value				
At 31st March 2003	<u>136,371</u>	<u>15,414</u>	<u>57,877</u>	<u>209,662</u>
At 31st March 2002	<u>139,461</u>	<u>18,179</u>	<u>45,938</u>	<u>203,578</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\$131,802,000 (2002: HK\$134,733,000). 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

13. SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,900	4,910
Less: provisions	(4,890)	(4,900)
	10	10
	-----	-----
Amounts due from subsidiaries (Note)	41,290	39,204
Less: provisions	(21,900)	-
	19,390	39,204
	-----	-----
Amounts due to subsidiaries (Note)	(10,085)	(10,110)
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	<u>9,315</u>	<u>29,104</u>

Note:

Except for an amount due from a subsidiary of HK\$22,928,000 (2002: HK\$29,568,000) 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

13. SUBSIDIARIES (continued)

Details of the subsidiaries at 31st March 2003 are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held 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, a wholly owned subsidiary incorporated in Hong Kong, was liquidated during the year.

NOTES TO THE ACCOUNTS

14. ASSOCIATED COMPANIES

	Group	
	2003	2002
		Restated (Note 1 (i)(i)(b))
	HK\$'000	HK\$'000
Share of net assets	851,039	804,796
Loan to an associated company	75,326	42,776
	<u>926,365</u>	<u>847,572</u>
	Company	
	2003	2002
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	3	3
Listed shares	1,053,250	1,053,250
	1,053,253	1,053,253
Loan to an associated company	75,326	42,776
	<u>1,128,579</u>	<u>1,096,029</u>
Market value of listed shares	<u>2,721,938</u>	<u>4,134,157</u>

Profit for the year retained by associated companies amounts to HK\$44,738,000 (2002 as restated: HK\$45,057,000).

The loan to an associated company is unsecured and interest free, and has no fixed repayment terms.

Dividends from an associated company received and receivable by the Company during the year amounted to HK\$108,194,000 (2002: HK\$108,194,000).

NOTES TO THE ACCOUNTS

14. ASSOCIATED COMPANIES *(continued)*

Details of the associated companies at 31st March 2003 are as follows:

Name	Place of incorporation/ operation	Principal activities	Percentage of issued ordinary share capital held by	
			Group	Company
Television Broadcasts Limited	Hong Kong	Television broadcasting	26.00%	26.00%
Goldway Holdings Limited	British Virgin Islands/ Hong Kong	Investment holding	35.00%	35.00%
Hong Kong Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	35.00%	–
China Digital Movie City Company Limited	Hong Kong	Dormant	35.00%	–
Hong Kong Digital Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	35.00%	–
Cosmos Gain International Limited	Hong Kong	Investment holding	33.33%	33.33%

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

NOTES TO THE ACCOUNTS

14. ASSOCIATED COMPANIES *(continued)*

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2002

	2002	2001 Restated
	HK\$'000	HK\$'000
Turnover	3,161,862	3,264,630
Cost of sales	<u>(1,543,362)</u>	<u>(1,671,072)</u>
Gross profit	1,618,500	1,593,558
Other revenues	41,083	83,173
Selling and distribution costs	(435,518)	(450,940)
General and administrative expenses	(489,409)	(524,974)
Other operating income/(expenses)	<u>893</u>	<u>(3,460)</u>
Operating profit	735,549	697,357
Finance costs	(21,945)	(23,163)
Share of profits less losses of		
Jointly controlled entities	(28,103)	(16,154)
Associated companies	<u>(1,250)</u>	<u>4,942</u>
Profit before taxation	684,251	662,982
Taxation	<u>(90,064)</u>	<u>(111,133)</u>
Profit after taxation	594,187	551,849
Minority interests	<u>(4,269)</u>	<u>37,582</u>
Profit attributable to shareholders	<u>589,918</u>	<u>589,431</u>
Dividends	<u>416,100</u>	<u>416,100</u>
Earnings per share	<u>HK\$1.35</u>	<u>HK\$1.35</u>

NOTES TO THE ACCOUNTS

14. ASSOCIATED COMPANIES *(continued)*

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED *(continued)*

CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER 2002

	2002	2001
	HK\$'000	Restated HK\$'000
Fixed assets	2,166,651	1,653,700
Jointly controlled entities	80,879	104,753
Associated companies	25,685	19,247
Investment in securities	4,698	4,550
Loans to investee companies	10,887	10,824
Current assets		
Programmes and film rights	658,734	532,481
Stocks	21,322	24,837
Trade and other receivables, prepayments and deposits	965,342	1,146,967
Investment in securities	–	49,825
Pledged bank deposits	1,618	7,134
Cash and bank balances	362,150	673,062
	<u>2,009,166</u>	<u>2,434,306</u>
Current liabilities		
Trade and other payables and accruals	575,808	737,325
Short term loans	232,786	175,947
Bank overdrafts	45,970	37,579
Current portion of long term liabilities	21,499	20,911
Taxation	28,410	30,089
	<u>904,473</u>	<u>1,001,851</u>
Net current assets	<u>1,104,693</u>	<u>1,432,455</u>
	<u>3,393,493</u>	<u>3,225,529</u>
Financed by:		
Share capital	21,900	21,900
Reserves	3,252,332	3,072,725
Shareholders' funds	3,274,232	3,094,625
Minority interests	424	–
Long term liabilities	55,589	72,242
Pensions obligations	7,642	6,224
Deferred taxation	55,606	52,438
	<u>3,393,493</u>	<u>3,225,529</u>

NOTES TO THE ACCOUNTS

15. INVENTORIES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Released films	4,305	18,655	–	–
Unreleased films	15,082	10,524	–	–
Raw materials and processing works	4,912	555	4,912	555
	<u>24,299</u>	<u>29,734</u>	<u>4,912</u>	<u>555</u>

16. ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note)	12,042	1,348	11,237	67
Prepayments, deposits and other receivables	9,594	13,658	8,919	12,746
	<u>21,636</u>	<u>15,006</u>	<u>20,156</u>	<u>12,813</u>

Note:

The Group has a defined credit policy. The general credit term ranges from 30 to 90 days.

At 31st March 2003, the ageing analysis of the trade receivables is as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	6,575	873	6,516	16
1 – 3 months	4,656	84	4,617	–
Over 3 months	811	391	104	51
	<u>12,042</u>	<u>1,348</u>	<u>11,237</u>	<u>67</u>

NOTES TO THE ACCOUNTS

17. CREDITORS AND ACCRUALS

	Group		Company	
	2003	2002 Restated (Note 1 (i)(i)(a))	2003	2002 Restated (Note 1 (i)(i)(a))
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note)	566	663	167	–
Other payables and accruals	15,036	18,980	10,656	12,274
	<u>15,602</u>	<u>19,643</u>	<u>10,823</u>	<u>12,274</u>

Note:

At 31st March 2003, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	224	–	167	–
1 – 3 months	70	–	–	–
Over 3 months	272	663	–	–
	<u>566</u>	<u>663</u>	<u>167</u>	<u>–</u>

18. PROVISION FOR STAFF LONG SERVICE PAYMENTS

Group and Company

	HK\$'000
At 1st April 2002	1,905
Additional provision	105
Less: unused amounts reversed	(36)
Charged to profit and loss account	69
Less: amounts utilised	(231)
At 31st March 2003	<u>1,743</u>

NOTES TO THE ACCOUNTS

19. SHARE CAPITAL

	2003 <u>HK\$'000</u>	2002 <u>HK\$'000</u>
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 profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2001					
Company and subsidiaries					
– as previously reported	–	32,678	–	684,408	717,086
– effect of adopting SSAP 34 in respect of employee benefits (Note 1(i)(i)(a))	–	–	–	(510)	(510)
– as restated	–	32,678	–	683,898	716,576
Associated companies					
– as previously reported	1,942	304	1,158	554,753	558,157
– effect of adopting SSAP 34 in respect of employee benefits (Note 1(i)(i)(b))	–	–	–	(11,092)	(11,092)
– as restated	1,942	304	1,158	543,661	547,065
At 1st April 2001, as restated	1,942	32,982	1,158	1,227,559	1,263,641
Share of reserve movements of an associated company	–	–	(3,614)	(1,445)	(5,059)
Profit for the year					
– as previously reported	–	–	–	147,335	147,335
– effect of adopting SSAP 34 by the Company and subsidiaries in respect of employee benefits (Note 1(i)(i)(a))	–	–	–	(28)	(28)
– effect of adopting SSAP 34 by an associated company in respect of employee benefits (Note 1(i)(i)(b))	–	–	–	(1,773)	(1,773)
– as restated	–	–	–	145,534	145,534
2001 Final dividend paid	–	–	–	(59,758)	(59,758)
2002 Interim dividend paid (Note 7)	–	–	–	(39,839)	(39,839)
At 31st March 2002	<u>1,942</u>	<u>32,982</u>	<u>(2,456)</u>	<u>1,272,051</u>	<u>1,304,519</u>
Representing:					
Retained profits				1,212,293	
2002 Final dividend proposed (Note 7)				59,758	
At 31st March 2002				<u>1,272,051</u>	
Company and subsidiaries	–	32,678	–	684,778	717,456
Associated companies	1,942	304	(2,456)	587,273	587,063
At 31st March 2002	<u>1,942</u>	<u>32,982</u>	<u>(2,456)</u>	<u>1,272,051</u>	<u>1,304,519</u>

NOTES TO THE ACCOUNTS

20. RESERVES (continued)

(a) Group (continued)

	Legal reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2002					
Company and subsidiaries					
– as previously reported	–	32,678	–	685,316	717,994
– effect of adopting SSAP 34 in respect of employee benefits (Note 1(i)(i)(a))	–	–	–	(538)	(538)
– as restated	–	32,678	–	684,778	717,456
Associated companies					
– as previously reported	1,942	304	(2,456)	600,138	599,928
– effect of adopting SSAP 34 in respect of employee benefits (Note 1(i)(i)(b))	–	–	–	(12,865)	(12,865)
– as restated	1,942	304	(2,456)	587,273	587,063
At 1st April 2002, as restated	1,942	32,982	(2,456)	1,272,051	1,304,519
Share of reserve movements of an associated company	–	–	2,235	(730)	1,505
Profit for the year	–	–	–	143,045	143,045
2002 Final dividend paid (Note 7)	–	–	–	(59,758)	(59,758)
2003 Interim dividend paid (Note 7)	–	–	–	(19,920)	(19,920)
At 31st March 2003	<u>1,942</u>	<u>32,982</u>	<u>(221)</u>	<u>1,334,688</u>	<u>1,369,391</u>
Representing:					
Retained profits				1,255,011	
2003 Final dividend proposed (Note 7)				79,677	
At 31st March 2003				<u>1,334,688</u>	
Company and subsidiaries	–	32,678	–	703,407	736,085
Associated companies	1,942	304	(221)	631,281	633,306
At 31st March 2003	<u>1,942</u>	<u>32,982</u>	<u>(221)</u>	<u>1,334,688</u>	<u>1,369,391</u>

Capital reserve includes a transfer from retained profits, 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 company.

NOTES TO THE ACCOUNTS

20. RESERVES (continued)

(b) Company

	General reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April 2001			
– as previously reported	557,394	988,112	1,545,506
– effect of adopting SSAP34 in respect of employees benefits (Note 1(i)(i)(a))	–	(510)	(510)
– as restated	557,394	987,602	1,544,996
Profit for the year			
– as previously reported	–	110,160	110,160
– effect of adopting SSAP34 in respect of employees benefits (Note 1(i)(i)(a))	–	(28)	(28)
– as restated	–	110,132	110,132
2001 Final dividend paid	–	(59,758)	(59,758)
2002 Interim dividend paid (Note 7)	–	(39,839)	(39,839)
At 31st March 2002	<u>557,394</u>	<u>998,137</u>	<u>1,555,531</u>
Representing:			
Retained profits		938,379	
2002 Final dividend proposed (Note 7)		59,758	
At 31st March 2002		<u>998,137</u>	
At 1st April 2002			
– as previously reported	557,394	998,675	1,556,069
– effect of adopting SSAP34 in respect of employees benefits (Note 1(i)(i)(a))	–	(538)	(538)
– as restated	557,394	998,137	1,555,531
Profit for the year	–	88,125	88,125
2002 Final dividend paid (Note 7)	–	(59,758)	(59,758)
2003 Interim dividend paid (Note 7)	–	(19,920)	(19,920)
At 31st March 2003	<u>557,394</u>	<u>1,006,584</u>	<u>1,563,978</u>
Representing:			
Retained profits		926,907	
2003 Final dividend proposed (Note 7)		79,677	
At 31st March 2003		<u>1,006,584</u>	

Distributable reserve of the Company at 31st March 2003, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,563,978,000 (2002 as restated: HK\$1,555,531,000).

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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	(7,902)	(2,861)	(7,902)	(2,861)
Unutilised tax losses	38,480	27,515	34,528	25,841
	<u>30,578</u>	<u>24,654</u>	<u>26,626</u>	<u>22,980</u>

22. CAPITAL COMMITMENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for				
– in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities	37,318	162,442	37,318	162,442
Contracted but not provided for				
– in respect of property, plant and equipment	576	11,077	576	11,077
– in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities	219,856	4,782	219,856	4,782
	<u>220,432</u>	<u>15,859</u>	<u>220,432</u>	<u>15,859</u>
	<u>257,750</u>	<u>178,301</u>	<u>257,750</u>	<u>178,301</u>

NOTES TO THE ACCOUNTS

23. LEASE COMMITMENTS

- (a) At 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	84	84	84	84

- (b) At 31st March 2003, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	17,732	17,809	17,732	17,809
Later than one year and not later than five years	22,164	39,896	22,164	39,896
	<u>39,896</u>	<u>57,705</u>	<u>39,896</u>	<u>57,705</u>

24. RELATED PARTY TRANSACTIONS

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

- (i) The Group received rental income in respect of land and buildings amounting to HK\$17,732,000 (2002: HK\$17,732,000) from an associated company. The rental income was determined by contract between both parties.
- (ii) The Group received filming facilities services fees of HK\$4,454,000 (2002: HK\$5,345,000) from an associated company. The fees for these facilities were determined by contract between both parties.
- (iii) The Group provided labour and administrative services to certain related companies for management fees totalling HK\$8,895,000 (2002: HK\$8,688,000). The fees for these services were determined by contract between the parties. These related companies are held by a substantial shareholder of the Company.

NOTES TO THE ACCOUNTS

25. CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of operating loss after finance costs to net cash outflow used in operations:

	2003	2002
	<u>HK\$'000</u>	<u>HK\$'000</u>
Operating loss after finance costs	(9,887)	(7,717)
Interest income	(5,960)	(11,957)
Interest expense	1	6
Depreciation charge	18,891	8,358
Gain on disposal of fixed assets	<u>(5)</u>	<u>(15)</u>
Operating profit/(loss) before working capital changes	3,040	(11,325)
Decrease/(increase) in inventories	5,435	(10,671)
(Increase)/decrease in accounts receivable, prepayments, deposits and other receivables	(13,062)	232
Decrease in creditors and accruals	(3,582)	(324)
Decrease in advanced rental received from an associated company	(468)	–
Decrease in provision for staff long service payments	<u>(162)</u>	<u>(39)</u>
Net cash outflow used in operations	<u><u>(8,799)</u></u>	<u><u>(22,127)</u></u>

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

	2003	2002
	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest income	5,960	11,957
Decrease/(increase) in interest receivable	<u>78</u>	<u>(53)</u>
Interest received	<u><u>6,038</u></u>	<u><u>11,904</u></u>
Interest expense	(1)	(6)
Change in interest payable	<u>–</u>	<u>–</u>
Interest paid	<u><u>(1)</u></u>	<u><u>(6)</u></u>

NOTES TO THE ACCOUNTS

25. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Liquidation of a subsidiary

	<u>2003</u> HK\$'000
Net assets disposed of:	
Accounts receivable, prepayments and deposits	<u>5</u>
Proceeds on liquidation	<u><u>5</u></u>
Satisfied by:	
Cash consideration	<u>5</u>
Net cash inflow from liquidation of a subsidiary	<u><u>5</u></u>

26. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 25th June 2003.