

NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2004.

2. Segment information

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 consist 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.

| | Six months ended 30th September 2004 | | | | |
|---|--------------------------------------|----------------------|-----------------------------------|-----------------------|----------------|
| | Property rental | Film distribution | Filming facilities services | Investment holding | Group total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover (<i>Note</i>) | 8,930 | 11,661 | 25,505 | – | 46,096 |
| Segment results | 6,263 | 1,125 | 1,228 | (2,650) | 5,966 |
| Unallocated items | | | | | (4,183) |
| Operating profit | | | | | 1,783 |
| Share of profits less losses of associated companies | – | – | – | 66,675 | 66,675 |
| Profit before taxation | | | | | 68,458 |
| Taxation | | | | | (11,119) |
| Profit attributable to shareholders | | | | | 57,339 |

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$835,000 attributable to filming facilities services.

2. Segment information (continued)

Primary reporting format – business segments (continued)

| | Six months ended 30th September 2003 | | | | |
|--|--------------------------------------|-------------------|-----------------------------|--------------------|-------------|
| | Property rental | Film distribution | Filming facilities services | Investment holding | Group total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover (Note) | 8,927 | 2,762 | 13,438 | – | 25,127 |
| Segment results | 6,250 | (899) | (2,935) | (2,607) | (191) |
| Unallocated items | | | | | (3,012) |
| Operating loss | | | | | (3,203) |
| Share of profits less losses of associated companies | – | – | – | 44,165 | 44,165 |
| Profit before taxation | | | | | 40,962 |
| Taxation | | | | | (5,218) |
| Profit attributable to shareholders | | | | | 35,744 |

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$321,000 attributable to filming facilities services.

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) | |
|-----------------|---------------------------------|----------|---------------------------------|----------|
| | Six months ended 30th September | | Six months ended 30th September | |
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 39,311 | 24,361 | 724 | (3,156) |
| South East Asia | 6,545 | 610 | 988 | (50) |
| USA | 180 | – | 47 | – |
| Others | 60 | 156 | 24 | 3 |
| | 46,096 | 25,127 | 1,783 | (3,203) |

3. Other revenues

| | Six months ended 30th September | |
|-----------------------|---------------------------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Management fee income | 4,374 | 4,623 |
| Interest income | 527 | 2,024 |
| Others | 961 | 761 |
| | 5,862 | 7,408 |

4. Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

| | Six months ended 30th September | |
|--|---------------------------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| <u>Crediting</u> | | |
| Gross rental income less outgoings | 8,773 | 8,735 |
| <u>Charging</u> | | |
| Depreciation charge | 10,101 | 10,344 |
| Net amount realised/(capitalised) to inventories | 525 | (2,274) |
| | 10,626 | 8,070 |
| Amortisation of released films | 9,331 | 2,789 |
| Staff costs | 17,493 | 15,864 |
| Operating leases – land and buildings | 232 | 232 |

5. Taxation

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the period (2003: 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:

| | Six months ended 30th September | |
|-----------------------------------|---------------------------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Company and subsidiaries: | | |
| Under provisions in prior periods | – | 1,091 |
| Associated companies: | | |
| Hong Kong profits tax | 979 | 1,585 |
| Overseas taxation | 5,286 | 1,054 |
| Under provisions in prior periods | 29 | 66 |
| Deferred taxation | 4,825 | 1,422 |
| | 11,119 | 4,127 |
| | 11,119 | 5,218 |

5. Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

| | Six months ended 30th September | |
|--|---------------------------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 68,458 | 40,962 |
| Calculated at a taxation rate of 17.5% (2003: 17.5%) | 11,980 | 7,168 |
| Effect of different taxation rates in other countries | (4,371) | (5,467) |
| Income not subject to taxation | (3,523) | (1,949) |
| Expenses not deductible for taxation purposes | 260 | 412 |
| Tax losses not recognised | 6,978 | 4,595 |
| Utilisation of previously unrecognised tax losses | (952) | (2,545) |
| Tax credit allowance | - | (55) |
| Increase in opening net deferred tax liabilities resulting from an increase in tax rate | - | 1,387 |
| Under provisions in prior periods | 29 | 1,157 |
| Others | 718 | 515 |
| | <u>11,119</u> | <u>5,218</u> |

6. Dividends

| | Six months ended 30th September | |
|---|---------------------------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Interim dividend, proposed, of HK\$0.05 (2003: HK\$0.05) per ordinary share (Note (b)) | 19,920 | 19,920 |
| | <u>19,920</u> | <u>19,920</u> |

Notes:

- (a) At a meeting held on 23rd June 2004, the Directors proposed a final dividend of HK\$0.15 per ordinary share for the year ended 31st March 2004, which was paid on 26th October 2004 and has been reflected as an appropriation of retained profits for the six months ended 30th September 2004.
- (b) At a meeting held on 1st December 2004, the Directors declared an interim dividend of HK\$0.05 per ordinary share for the year ending 31st March 2005. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March 2005.

7. Earnings per share

The calculation of earnings per share is based on earnings for the period of HK\$57,339,000 (2003: HK\$35,744,000) and on 398,390,400 ordinary shares in issue throughout the two six-month periods ended 30th September 2004 and 2003.

8. Capital expenditure

| | Fixed assets |
|---|----------------|
| | HK\$'000 |
| Six months ended 30th September 2004 | |
| Opening net book amount | 194,955 |
| Additions | 2,523 |
| Disposals | (160) |
| Depreciation charge (Note 4) | (10,101) |
| Closing net book amount | <u>187,217</u> |

9. Accounts receivable, prepayments, deposits and other receivables

Included in accounts receivable, prepayments, deposits and other receivables are trade debtors and their ageing analysis is as follows:

| | 30th September 2004 | 31st March 2004 |
|---------------|------------------------|--------------------|
| | HK\$'000 | HK\$'000 |
| Current | 7,839 | 9,184 |
| 1 – 3 months | 4,898 | 4,900 |
| Over 3 months | 6,570 | 865 |
| | <u>19,307</u> | <u>14,949</u> |

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

10. Creditors and accruals

Included in creditors and accruals are trade creditors and their ageing analysis is as follows:

| | 30th September 2004 | 31st March 2004 |
|---------------|------------------------|--------------------|
| | HK\$'000 | HK\$'000 |
| Current | 745 | 1,583 |
| 1 – 3 months | – | 110 |
| Over 3 months | 208 | 370 |
| | <u>953</u> | <u>2,063</u> |

11. Reserves

| | Legal reserve | Capital reserve | Exchange fluctuation reserve | Retained profits | Total |
|--|------------------|--------------------|------------------------------------|---------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st April 2004 | 2,036 | 32,902 | (6,618) | 1,341,612 | 1,369,932 |
| Share of reserve movements of an associated company | – | – | (978) | 269 | (709) |
| Profit for the period | – | – | – | 57,339 | 57,339 |
| 2003/2004 Final dividend paid (Note 6(a)) | – | – | – | (59,758) | (59,758) |
| At 30th September 2004 | <u>2,036</u> | <u>32,902</u> | <u>(7,596)</u> | <u>1,339,462</u> | <u>1,366,804</u> |
| Representing: | | | | | |
| Retained profits | | | | 1,319,542 | |
| 2004/2005 Interim dividend proposed (Note 6(b)) | | | | <u>19,920</u> | |
| At 30th September 2004 | | | | <u>1,339,462</u> | |
| At 1st April 2003 | 1,942 | 32,982 | (221) | 1,334,688 | 1,369,391 |
| Share of reserve movements of an associated company | 94 | – | (5,220) | 5,371 | 245 |
| Profit for the period | – | – | – | 35,744 | 35,744 |
| 2002/2003 Final dividend paid | – | – | – | (79,677) | (79,677) |
| At 30th September 2003 | <u>2,036</u> | <u>32,982</u> | <u>(5,441)</u> | <u>1,296,126</u> | <u>1,325,703</u> |
| Representing: | | | | | |
| Retained profits | | | | 1,276,206 | |
| 2003/2004 Interim dividend proposed | | | | <u>19,920</u> | |
| At 30th September 2003 | | | | <u>1,296,126</u> | |

12. Capital commitments

| | 30th September 2004 | 31st March 2004 |
|--|------------------------|--------------------|
| | 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 | 54,583 | 95,560 |
| Contracted but not provided for | | |
| – in respect of property, plant and equipment | 109 | 1,068 |
| – in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities | 17,791 | 75,515 |
| | 17,900 | 76,583 |
| | 72,483 | 172,143 |

13. Related party transactions

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

- (i) The Group received rental income in respect of land and buildings amounting to HK\$8,866,000 (2003: HK\$8,866,000) from an associated company. The rental income was determined by contract between both parties.
- (ii) The Group provided labour and administrative services to certain related companies for management fees totaling HK\$4,191,000 (2003: HK\$4,252,000). The fees for these services were determined by contract between the parties. These related companies are held by a substantial shareholder of the Company.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of 5.0 cents per ordinary share, payable on 26th January 2005 to shareholders whose names appear on the Register of Members of the Company on that date, and will absorb HK\$19,919,520.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Saturday, 8th January 2005 to Wednesday, 26th January 2005, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, at Hopewell Centre, 17th Floor, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Friday, 7th January 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Rental

Property rental income was mainly derived from leasing office premises to our associated company, Television Broadcasts Limited.

Filming Facilities Services

Filming facilities services comprise Film Remastering and Film Processing Centres, and the contribution during the period was HK\$1,228,000, in line with expectations.

Redevelopment Of Clearwater Bay Site

Preliminary agreement has been reached, subject to contract, between SCMP Group and the Company consequent to which a request has been made jointly to the Town Planning Board to re-activate consideration of the Master Layout Plan submitted in October 2002, subject to further minor amendments.