

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 Institute of Certified Public Accountants (“HKICPA”). The accounts are prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these new accounting standards in the accounts for the year ended 31st March 2005. The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the more significant differences between new HKFRSs and current accounting policies that are expected to affect the Group are as follows:

Under Hong Kong Accounting Standard No.17 “Leases”, leasehold land in Hong Kong will no longer be accounted for as property, plant and equipment. Instead, it will be accounted for as prepayment of leases and stated at cost and recognised as an expense on a straight-line basis over the lease term.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

(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, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds 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.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

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.

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 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.

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.

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 2005 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.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Goodwill *(continued)*

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.

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.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

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.

(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.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is 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 leave are not recognised until the time of leave.

(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”) in accordance with the Mandatory Provident Fund Schemes Ordinance, the assets of which are held in a separately administered fund.

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.

(iv) Long service payment

The Group’s net obligation in respect of long services amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits *(continued)*

(iv) Long service payment (continued)

The long service payment liabilities are assessed using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the profit and loss account so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlement accrued under the Group's defined contribution plan that is attributable to contributions made by the Group. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(o) 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 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 customer.
- (iv) Management fee income is recognised when the services are rendered.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition *(continued)*

- (v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(p) 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 segments as the secondary reporting format.

Unallocated items consist primarily of management fee income and 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 bank and cash balances. Segment liabilities comprise operating liabilities and exclude items such as provision for staff long service payments. 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.

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	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Rental income from land and buildings	17,876	17,833
Film distribution income	13,594	5,796
Filming facilities services fees	41,046	35,877
	<u>72,516</u>	<u>59,506</u>
Other revenues		
Management fee income	9,205	9,213
Interest income	1,395	2,708
Others	2,836	2,436
	<u>13,436</u>	<u>14,357</u>
Total revenues	<u>85,952</u>	<u>73,863</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

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES (continued)

Primary reporting format – business segments (continued)

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.

	Property rental	Film distribution	Filming facilities services	Investment holding	Group total
	2005	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover (Note)	17,876	13,594	41,046	–	72,516
Segment results	13,336	(1,051)	2,964	(5,886)	9,363
Unallocated items					(12,097)
Operating loss					(2,734)
Share of profits less losses of associated companies	–	–	–	224,638	224,638
Profit before taxation					221,904
Taxation					(39,604)
Profit attributable to shareholders					182,300
Segment assets	114,264	5,984	89,805	–	210,053
Associated companies	–	–	–	1,280,939	1,280,939
Unallocated assets					100,528
Total assets					1,591,520
Segment liabilities	2,030	4,028	3,332	–	9,390
Unallocated liabilities					8,395
Total liabilities					17,785
Capital expenditure	–	–	2,748	–	2,748
Depreciation charge	4,084	–	15,962	–	20,046
Amortisation of released films	–	12,449	–	–	12,449

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$1,045,000 attributable to filming facilities services.

NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES (continued)

Primary reporting format – business segments (continued)

	Property rental 2004	Film distribution 2004	Filming facilities services 2004	Investment holding 2004	Group total 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover (Note)	17,833	5,796	35,877	–	59,506
Segment results	13,253	(7,883)	(667)	(5,708)	(1,005)
Unallocated items					(10,643)
Operating loss					(11,648)
Finance costs					(1)
Share of profits less losses of associated companies	–	–	–	120,409	120,409
Profit before taxation					108,760
Taxation					(7,690)
Profit attributable to shareholders					101,070
Segment assets	112,652	20,855	108,087	–	241,594
Associated companies	–	–	–	1,069,648	1,069,648
Unallocated assets					185,470
Total assets					1,496,712
Segment liabilities	2,030	11,643	4,608	–	18,281
Unallocated liabilities					8,901
Total liabilities					27,182
Capital expenditure	–	–	5,340	–	5,340
Depreciation charge	4,084	–	15,116	–	19,200
Amortisation of released films	–	11,953	–	–	11,953

The above comparatives were reclassified to conform to current year's presentation.

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$389,000 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 loss before finance costs		Total assets		Capital expenditure	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	63,848	55,506	(4,551)	(7,271)	310,581	427,064	2,748	5,340
South East Asia	7,278	3,810	1,013	(4,162)	-	-	-	-
USA	180	-	35	2	-	-	-	-
Others	1,210	190	769	(217)	-	-	-	-
	<u>72,516</u>	<u>59,506</u>	<u>(2,734)</u>	<u>(11,648)</u>	<u>310,581</u>	<u>427,064</u>	<u>2,748</u>	<u>5,340</u>
Associated companies					<u>1,280,939</u>	<u>1,069,648</u>		
					<u>1,591,520</u>	<u>1,496,712</u>		

NOTES TO THE ACCOUNTS

3. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2005	2004
	HK\$'000	HK\$'000
<u>Crediting</u>		
Gross rental income less outgoings	17,580	17,493
<u>Charging</u>		
Depreciation charge	20,261	20,047
Less: net amount capitalised to inventories	(215)	(847)
	20,046	19,200
Amortisation of released films	12,449	11,953
Exchange loss	209	–
Staff costs (Note 9)	34,772	35,100
Operating leases – land and buildings	400	400
Auditors' remuneration	300	292
Loss on disposal of fixed assets	90	–

4. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest expense on bank overdrafts	–	1

5. TAXATION

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the year (2004: Nil). Tax on overseas profits has been calculated, where applicable, at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE ACCOUNTS

5. TAXATION (continued)

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax		
– Under provision in prior years	–	1,091
Associated companies:		
Hong Kong profits tax	21,026	1,995
Under/(over) provisions in prior years	671	(1,215)
Overseas taxation	8,895	1,563
Deferred taxation	9,012	4,256
	<u>39,604</u>	<u>6,599</u>
	<u>39,604</u>	<u>7,690</u>

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:

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	<u>221,904</u>	<u>108,760</u>
Calculated at a taxation rate of 17.5% (2004: 17.5%)	38,833	19,033
Effect of different taxation rates in other countries	(9,639)	(14,466)
Income not subject to taxation	(3,881)	(2,522)
Expenses not deductible for taxation purposes	2,823	6,005
Tax losses not recognised	12,896	6,879
Utilisation of previously unrecognised tax losses	(2,217)	(7,139)
Tax credit allowance	(676)	(605)
Increase in opening net deferred tax liabilities		
resulting from an increase in tax rate	–	1,409
Under/(over) provisions in prior years	671	(124)
Others	794	(780)
	<u>39,604</u>	<u>7,690</u>

NOTES TO THE ACCOUNTS

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$88,410,000 (2004: HK\$103,722,000).

7. DIVIDENDS

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Interim dividend paid, HK\$0.05 (2004: HK\$0.05) per ordinary share	19,920	19,920
Final dividend proposed, HK\$0.22 (2004: HK\$0.15) per ordinary share	87,645	59,758
	107,565	79,678

At a meeting held on 22nd June 2005, the Directors proposed a final dividend of HK\$0.22 per ordinary share for the year ended 31st March 2005. 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 2006.

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$182,300,000 (2004: HK\$101,070,000) and on 398,390,400 ordinary shares in issue throughout the two years ended 31st March 2005.

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Directors' fee	62	58
Salaries, housing and other allowances	33,486	33,685
Bonuses	131	201
Post-employment benefits		
– MPF Scheme (Note 18)	1,056	1,055
– Long service payments (Note 18)	(25)	744
	34,710	35,743
Less: net amounts realised/(capitalised) to inventories	62	(643)
	34,772	35,100

NOTES TO THE ACCOUNTS

10. DIRECTORS' EMOLUMENTS

	2005	2004
	HK\$'000	HK\$'000
Fees	62	58
Salaries, housing and other allowances	7,606	7,206
Bonuses	120	120
Post-employment benefits – MPF Scheme	24	24
	7,812	7,408

Directors' fees disclosed above include HK\$28,000 (2004: HK\$24,000) paid to independent non-executive directors.

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

<u>Emolument bands</u>	<u>Number of directors</u>	
	2005	2004
Nil – HK\$1,000,000	6	6
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	1
	8	8

11. FIVE HIGHEST PAID EMPLOYEES

Among the five highest paid employees, four (2004: four) are directors whose emoluments are disclosed in Note 10 above. The emoluments of the other one (2004: one) employee are analysed as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries, housing and other allowances	804	804
Post-employment benefits – MPF Scheme	12	12
	816	816

The emoluments fell within the following band:

<u>Emolument bands</u>	<u>Number of employees</u>	
	2005	2004
Nil – HK\$1,000,000	1	1

NOTES TO THE ACCOUNTS

12. 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
Cost				
At 1st April 2004	173,592	60,638	86,297	320,527
Additions	–	77	2,671	2,748
Disposals	–	(44)	(230)	(274)
At 31st March 2005	<u>173,592</u>	<u>60,671</u>	<u>88,738</u>	<u>323,001</u>
Accumulated depreciation				
At 1st April 2004	40,373	48,733	36,466	125,572
Charge for the year	3,152	3,367	13,742	20,261
Written back on disposals	–	(22)	(92)	(114)
At 31st March 2005	<u>43,525</u>	<u>52,078</u>	<u>50,116</u>	<u>145,719</u>
Net book value				
At 31st March 2005	<u>130,067</u>	<u>8,593</u>	<u>38,622</u>	<u>177,282</u>
At 31st March 2004	<u>133,219</u>	<u>11,905</u>	<u>49,831</u>	<u>194,955</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\$125,814,000 (2004: HK\$128,808,000). 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	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,900	4,900
Less: provisions	(4,890)	(4,890)
	<u>10</u>	<u>10</u>
Amounts due from subsidiaries (Note a)	37,457	41,596
Less: provisions	(33,504)	(30,700)
	<u>3,953</u>	<u>10,896</u>
Amounts due to subsidiaries (Note a)	(442)	(448)
	<u>3,521</u>	<u>10,458</u>

- (a) Except for an amount due from a subsidiary of HK\$25,178,000 (2004: HK\$25,028,000) 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)

(b) Details of the subsidiaries at 31st March 2005 are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held	
					Direct	Indirect
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%	–
Special Classic Limited	Hong Kong	Sales of karaoke discs	2	HK\$1	100%	–
Cosmopolitan Film Productions Co. Limited	Hong Kong	Dormant	1,000	HK\$10	100%	–
United Production Limited	Hong Kong	Dormant	2	HK\$1	100%	–
Cosmos Gain International Ltd	Hong Kong	Dormant	6	HK\$1	–	100%

14. ASSOCIATED COMPANIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	951,233	855,723
Loan to an associated company	329,706	213,925
	1,280,939	1,069,648

NOTES TO THE ACCOUNTS

14. ASSOCIATED COMPANIES (continued)

	Company	
	2005	2004
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	7	3
Listed shares	1,053,250	1,053,250
	1,053,257	1,053,253
Loan to an associated company	329,706	213,925
	1,382,963	1,267,178
Market value of listed shares	4,475,823	4,191,102

Profit for the year retained by associated companies amounts to HK\$93,923,000 (2004: HK\$5,616,000).

- (a) The loan to an associated company is unsecured and interest free, and has no fixed repayment terms.
- (b) Dividends from an associated company received and receivable by the Company during the year amounted to HK\$91,111,000 (2004: HK\$108,194,000).
- (c) Details of the associated companies at 31st March 2005 are as follows:

Name	Place of incorporation/ operation	Principal activities	Percentage of issued ordinary share capital held	
			Direct	Indirect
Television Broadcasts Limited	Hong Kong	Television broadcasting	26%	–
Goldway Holdings Limited	British Virgin Islands/ Hong Kong	Investment holding	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	Dormant	–	35%

NOTES TO THE ACCOUNTS

14. ASSOCIATED COMPANIES (continued)

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

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2004

	2004	2003
	HK\$'000	HK\$'000
Turnover	3,816,936	3,311,162
Cost of sales	(1,841,449)	(1,692,513)
Gross profit	1,975,487	1,618,649
Other revenues	58,220	37,922
Selling, distribution and transmission costs	(450,258)	(442,818)
General and administrative expenses	(512,948)	(574,207)
Other operating income/(expenses)	10,890	(106,382)
Gain on deemed disposal of subsidiaries	–	27,726
Gain on disposal of a subsidiary	–	5,213
Operating profit	1,081,391	566,103
Finance costs	(7,006)	(17,202)
Share of profits less losses of		
Jointly controlled entities	(6,099)	(47,080)
Associated companies	(166,402)	(16,734)
Profit before taxation	901,884	485,087
Taxation	(152,312)	(25,378)
Profit after taxation	749,572	459,709
Minority interests	(30,157)	(18,711)
Profit attributable to shareholders	719,415	440,998
Dividends	438,000	350,400
Earnings per share	HK\$1.64	HK\$1.01

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 2004

	2004	2003
	HK\$'000	HK\$'000
Intangible assets	55,342	62,739
Fixed assets	2,242,828	2,365,231
Jointly controlled entities	18,722	22,714
Associated companies	261,713	238,234
Investment in securities	3,705	3,658
Loans to investee companies	14,263	13,200
Deferred tax assets	18,592	23,551
Current assets		
Programmes and film rights	452,652	605,459
Stocks	11,588	15,242
Trade and other receivables, prepayments and deposits	1,024,956	991,809
Other investments	189,432	–
Tax recoverable	3,034	13,512
Pledged bank deposits	234	228
Cash and bank balances	535,849	361,783
	<u>2,217,745</u>	<u>1,988,033</u>
Current liabilities		
Trade and other payables and accruals	727,635	511,527
Provisions	14,861	33,073
Short term bank loans	2,338	549,368
Bank overdrafts, unsecured	–	6,532
Current portion of long term liabilities	9,702	5,276
Tax payable	99,865	5,805
	<u>854,401</u>	<u>1,111,581</u>
Net current assets	<u>1,363,344</u>	<u>876,452</u>
Total assets less current liabilities	<u>3,978,509</u>	<u>3,605,779</u>
Financed by:		
Share capital	21,900	21,900
Reserves	3,648,746	3,273,647
Shareholders' funds	<u>3,670,646</u>	<u>3,295,547</u>
Minority interests	116,550	83,785
Provisions	1,045	62,052
Long term liabilities	48,683	57,265
Pension obligations	16,215	11,372
Deferred tax liabilities	125,370	95,758
	<u>3,978,509</u>	<u>3,605,779</u>

NOTES TO THE ACCOUNTS

15. INVENTORIES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Released films	1,083	2,979	–	–
Unreleased films	3,790	14,842	–	–
Raw materials and processing works	6,653	6,969	6,653	6,969
	11,526	24,790	6,653	6,969

16. ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note)	8,196	14,949	7,800	13,162
Prepayments, deposits and other receivables	12,874	9,156	12,658	8,394
	21,070	24,105	20,458	21,556

Note:

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

At 31st March 2005, the ageing analysis of trade receivables is as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	3,176	9,184	3,176	8,942
1 – 3 months	1,089	4,900	1,064	3,922
Over 3 months	3,931	865	3,560	298
	8,196	14,949	7,800	13,162

NOTES TO THE ACCOUNTS

17. CREDITORS AND ACCRUALS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note)	243	2,063	202	994
Other payables and accruals	13,547	20,856	10,334	11,076
	13,790	22,919	10,536	12,070

Note:

At 31st March 2005, the ageing analysis of trade payables is as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	202	1,583	202	994
1 – 3 months	–	110	–	–
Over 3 months	41	370	–	–
	243	2,063	202	994

18. PROVISION FOR STAFF LONG SERVICE PAYMENTS

Group and Company

The Group's provision for long service payments is provided based on the actuarial assumptions with the adoption of the projected unit credit method.

The amounts recognised in the balance sheet are determined as follows:

	2005	2004
	HK\$'000	HK\$'000
Present value of unfunded obligations	5,265	4,984
Fair value of MPF Scheme	(3,123)	(2,574)
Provision for staff long service payments	2,142	2,410

NOTES TO THE ACCOUNTS

18. PROVISION FOR STAFF LONG SERVICE PAYMENTS *(continued)*

Group and Company *(continued)*

The amounts recognised in the consolidated profit and loss account are as follows:

	2005	2004
	HK\$'000	HK\$'000
Current service cost	1,038	1,645
Unrecognised actuarial (gain)/loss	(143)	505
Deficit/(return) on MPF Scheme assets	136	(351)
	1,031	1,799

Total expenses recognised in the profit and loss account are analysed as follows:

	2005	2004
	HK\$'000	HK\$'000
Cost of sales	250	260
Selling and distribution expenses	15	35
General and administrative expenses	279	1,096
Other operating expenses	487	408
	1,031	1,799

Movements in the provision for long service payment recognised in balance sheet are as follows:

	2005	2004
	HK\$'000	HK\$'000
At beginning of the year	2,410	1,743
Total expenses		
– MPF Scheme (Note 9)	1,056	1,055
– Long service payments (Note 9)	(25)	744
Total expenses (as shown above)	1,031	1,799
Contributions and benefits paid	(1,299)	(1,132)
At end of the year	2,142	2,410

NOTES TO THE ACCOUNTS

18. PROVISION FOR STAFF LONG SERVICE PAYMENTS *(continued)*

Group and Company *(continued)*

The principal actuarial assumptions used are as follows:

	<u>2005</u>	<u>2004</u>
	%	%
Discount rate	4.36	3.78
Expected rate of future salary increment	1.00	1.00

19. SHARE CAPITAL

	<u>2005</u>	<u>2004</u>
	HK\$'000	HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.25 each	150,000	150,000
Issued and fully paid:		
398,390,400 ordinary shares of HK\$0.25 each	99,598	99,598

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 2003	1,942	32,982	(221)	1,334,688	1,369,391
Share of reserve movements of associated companies	94	(80)	(6,397)	5,451	(932)
Profit for the year	–	–	–	101,070	101,070
2003 Final dividend paid	–	–	–	(79,677)	(79,677)
2004 Interim dividend paid (Note 7)	–	–	–	(19,920)	(19,920)
At 31st March 2004	<u>2,036</u>	<u>32,902</u>	<u>(6,618)</u>	<u>1,341,612</u>	<u>1,369,932</u>
Representing:					
Retained profits				1,281,854	
2004 Final dividend proposed (Note 7)				<u>59,758</u>	
At 31st March 2004				<u>1,341,612</u>	
Company and subsidiaries	–	32,678	–	699,264	731,942
Associated companies	<u>2,036</u>	<u>224</u>	<u>(6,618)</u>	<u>642,348</u>	<u>637,990</u>
At 31st March 2004	<u>2,036</u>	<u>32,902</u>	<u>(6,618)</u>	<u>1,341,612</u>	<u>1,369,932</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 2004	2,036	32,902	(6,618)	1,341,612	1,369,932
Share of reserve movements of associated companies	368	–	834	381	1,583
Profit for the year	–	–	–	182,300	182,300
2004 Final dividend paid (Note 7)	–	–	–	(59,758)	(59,758)
2005 Interim dividend paid (Note 7)	–	–	–	(19,920)	(19,920)
	<u>2,404</u>	<u>32,902</u>	<u>(5,784)</u>	<u>1,444,615</u>	<u>1,474,137</u>
At 31st March 2005					
Representing:					
Retained profits				1,356,970	
2005 Final dividend proposed (Note 7)				87,645	
				<u>1,444,615</u>	
At 31st March 2005					
Company and subsidiaries	–	32,678	–	707,963	740,641
Associated companies	2,404	224	(5,784)	736,652	733,496
	<u>2,404</u>	<u>32,902</u>	<u>(5,784)</u>	<u>1,444,615</u>	<u>1,474,137</u>
At 31st March 2005					

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 subsidiary.

NOTES TO THE ACCOUNTS

20. RESERVES (continued)

(b) Company

	General reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April 2003	557,394	1,006,584	1,563,978
Profit for the year	–	103,722	103,722
2003 Final dividend paid	–	(79,677)	(79,677)
2004 Interim dividend paid (Note 7)	–	(19,920)	(19,920)
At 31st March 2004	<u>557,394</u>	<u>1,010,709</u>	<u>1,568,103</u>
Representing:			
Retained profits		950,951	
2004 Final dividend proposed (Note 7)		<u>59,758</u>	
At 31st March 2004		<u>1,010,709</u>	
At 1st April 2004	557,394	1,010,709	1,568,103
Profit for the year	–	88,410	88,410
2004 Final dividend paid (Note 7)	–	(59,758)	(59,758)
2005 Interim dividend paid (Note 7)	–	(19,920)	(19,920)
At 31st March 2005	<u>557,394</u>	<u>1,019,441</u>	<u>1,576,835</u>
Representing:			
Retained profits		931,796	
2005 Final dividend proposed (Note 7)		<u>87,645</u>	
At 31st March 2005		<u>1,019,441</u>	

Distributable reserve of the Company at 31st March 2005, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,576,835,000 (2004: HK\$1,568,103,000).

21. DEFERRED TAXATION

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable. As at 31st March 2005, the Group has unrecognised tax losses of approximately HK\$231,038,000 (2004: HK\$235,369,000) to carry forward against future taxable profits with no expiry date. Deferred tax assets for these tax losses are not recognised as it is not probable that related tax benefits will be utilised in the foreseeable future.

NOTES TO THE ACCOUNTS

22. CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Legal claim arised from film production	1,000	–	–	–

At 31st March 2005, a civil suit has been filed, by a stuntman who was injured during the course of film production, against Film Power Company Limited, a non-wholly owned subsidiary of the Company. Based on Counsel's advice, the Directors estimate that the maximum compensation payable will be HK\$1.0 million.

23. CAPITAL COMMITMENTS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for				
– in respect of property, plant and equipment	14,400	–	14,400	–
– in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities	53,315	95,560	53,315	95,560
	67,715	95,560	67,715	95,560
Contracted but not provided for				
– in respect of property, plant and equipment	121	1,068	121	1,068
– in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities	1,979	75,515	1,979	75,515
	2,100	76,583	2,100	76,583
	69,815	172,143	69,815	172,143

NOTES TO THE ACCOUNTS

24. LEASE COMMITMENTS

- (a) At 31st March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Not later than one year	84	84	84	84

- (b) At 31st March 2005, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Not later than one year	4,432	17,732	4,432	17,732
Later than one year and not later than five years	–	4,432	–	4,432
	4,432	22,164	4,432	22,164

25. 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 (2004: HK\$17,732,000) 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 totalling HK\$8,719,000 (2004: HK\$8,459,000). 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.

NOTES TO THE ACCOUNTS

26. CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before taxation to net cash inflow generated from operations:

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	221,904	108,760
Share of profits less losses of associated companies	(224,638)	(120,409)
Interest income	(1,395)	(2,708)
Interest expense	–	1
Depreciation charge	20,261	20,047
Loss on disposal of fixed assets	90	–
Operating profit before working capital changes	16,222	5,691
Decrease/(increase) in inventories	13,264	(491)
Decrease/(increase) in accounts receivable, prepayments, deposits and other receivables	2,839	(3,172)
(Decrease)/increase in creditors and accruals	(8,342)	7,993
Decrease in advanced rental received from an associated company	–	(29)
(Decrease)/increase in provision for staff long service payments	(268)	667
Net cash inflow generated from operations	23,715	10,659

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

	2005	2004
	HK\$'000	HK\$'000
Interest income	1,395	2,708
Decrease in interest receivable	285	81
Interest received	1,680	2,789
Interest expense	–	(1)
Change in interest payable	–	–
Interest paid	–	(1)

27. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 22nd June 2005.