Notes to Financial Statements

31st December, 2002

1. CORPORATE INFORMATION

The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- development and operation of and investment in media, entertainment, Internet and technology-oriented businesses;
- provision of advertising agency services;
- management of hotel operations; and
- satellite television operations.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 28 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the adoption of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 to 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

Notes to Financial Statements

31st December, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the unexpired lease terms
Buildings	2.5% — 5.0%
Leasehold improvements	Over the terms of the leases
Furniture, fixtures and equipment	20%
Broadcast operations and engineering equipment	10.0%
Motor vehicles	10.0% — 20.0%
Computers	10.0% — 20.0%

Construction in progress represents a building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant assets.

Long term investments

Long term investments comprise non-trading investments in unlisted equity securities intended to be held for an identified long term purpose. Unlisted securities are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. Where the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values, as determined by the directors, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Self-produced programmes

Self-produced programmes are stated at cost less any impairment losses. Cost comprises direct expenditure and an attributed portion of direct production overheads. The relevant portion of the cost of self-produced programmes is charged to the profit and loss account in accordance with the number of episodes broadcast in the financial year.

Purchased programme rights

Purchased programme rights, which represent entitlements under contracts to receive and broadcast programmes, are stated at cost less any impairment losses. The cost of purchased programme rights is charged to the profit and loss account upon the first broadcasting of the programmes.

Film rights

Film rights are certain rights to completed films acquired from outsiders and are stated at cost less accumulated amortisation and any impairment losses.

Film rights are amortised proportionately to the estimated projected revenues over their economic beneficial period subject to a maximum of 10 years. Estimated projected revenues are reviewed on a film-by-film basis at a regular interval. Additional amortisation will be made if future estimated projected revenues adversely differ from the previous estimation.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following bases:

(a) hotel management fee income, in the period in which such management services are rendered;

(b) advertising agency fee income, in the period in which such advertising services are rendered;

(c) programme distribution fee income is recognised when the master audio and visual materials have been delivered to the licensee for immediate exploitation of programmes;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) turnover from entertainment events organised by the Group is recognised when the events are completed;

(e) net income shared from entertainment events organised by other co-investors is recognised when the events are completed;

(f) Internet maintenance service fee income is recognised when services are rendered;

(g) television technical service fee income is recognised when services are rendered;

(h) income from the sale of short term investments, on the transaction date when the relevant contract is entered into; and

(i) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Employee benefits

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the Group's accumulated losses.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, but has had no material effect on the amounts previously reported for the cash flows in prior years.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the hotel management segment engages in the provision of management services to hotels;

(b) the media and entertainment segment engages in investment in and the production of entertainment events, the operation of websites and the distribution of motion pictures and television drama series;

(c) the satellite television segment engages in the television broadcasting business, including the production of television programmes and the operation of a satellite television channel;

(d) the advertising agency segment engages in the provision of advertising agency services, primarily in respect of advertisements on television and in newspapers; and

(e) the corporate and other segment comprises the debt advanced to FHEL (as defined in note 18) of approximately HK$1,500,040,000, further details of which are included in note 18 to the financial statements, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements

31st December, 2002

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, profit/loss and certain asset, liability and expenditure information for the Group's business segments.

Group

	Hotel management		Media and entertainment		Satellite television		Advertising agency		Corporate and other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	7,426	4,955	113,908	—	793	—	54,151	79,421	—	—	176,278	84,376
Other revenue	1,081	—	2,006	715	15	—	259	—	75,896	77,930	79,257	78,645
Total	8,507	4,955	115,914	715	808	—	54,410	79,421	75,896	77,930	255,535	163,021
Segment results	7,870	2,316	(25,545)	(14,338)	(60,660)	(49,425)	(284)	1,873	52,731	14,261	(25,888)	(45,313)
Dividend income and unallocated interest and other gains											3,535	7,932
Gain on disposal of interests in associates			532	3,855							532	3,855
Loss on disposal of short term investments									(285)	(65,853)	(285)	(65,853)
Unrealised holding loss on short term investments									(291)		(291)	—
Loss on disposal of a long term investment									(501)		(501)	—
Impairment of a long term investment			(4,681)	(29,871)							(4,681)	(29,871)
Loss from operating activities											(27,579)	(129,250)
Finance costs											(1,708)	(4,141)
Impairment of an investment in an associate				(3,168)							—	(3,168)
Provision for an amount due from a jointly-controlled entity			(6,530)								(6,530)	—
Impairment of goodwill arising on acquisition of associates and a jointly-controlled entity				(32,990)							—	(32,990)
Share of profits and losses of:												
Associates			(31,530)	(7,216)							(31,530)	(7,216)
Jointly-controlled entities			(2,113)	(2,658)							(2,113)	(2,658)
Loss before tax											(69,460)	(179,423)
Tax											985	(2,130)
Loss before minority interests											(68,475)	(181,553)
Minority interests											(324)	(135)
Net loss attributable to shareholders											(68,799)	(181,688)
Segment assets	2,418	3,061	161,368*	16,218	151,063	202,442	13,296	20,070	1,523,449	1,578,393	1,851,594	1,820,184
Interests in associates	—	—	48,903	85,983	—	—	—	—	—	—	48,903	85,983
Interests in jointly-controlled entities	—	—	779	6,006	—	—	—	—	—	—	779	6,006
Unallocated assets											2,683	51,965
Total assets											1,903,959	1,964,138
Segment liabilities	500	1,528	9,587	483	3,215	2,592	14,746	13,094	5,421	12,252	33,469	29,949
Unallocated liabilities											48,278	42,543
Total liabilities											81,747	72,492
Other segment information:												
Depreciation and amortisation	—	—	2,404	4,581	10,947	4,649	24	39	453	718	13,828	9,987
Provision for bad and doubtful debts	—	—	200	—	30	—	—	237	1,319	882	1,549	1,119
Write-back of provisions for bad and doubtful debts	—	—	—	—	—	—	—	—	9,287	1,531	9,287	1,531
Provision for an amount due from an associate	—	—	2,702	—	—	—	—	—	—	—	2,702	—
Write-off of deposits paid	—	—	—	3,412	—	—	—	—	—	—	—	3,412
Impairment loss of self-produced and purchased programmes	—	—	6,661	—	—	—	—	—	—	—	6,661	—
Amortisation of self-produced and purchased programmes	—	—	5,934	—	—	—	—	—	—	—	5,934	—
Capital expenditure	—	—	243	270	25,533	59,230	113	13	194	681	26,083	60,194

* During the year, the Group changed its strategic purpose in its holding of certain film rights (note 20) and television dramas. Following such change, the directors considered it more appropriate to include in the media and entertainment segment, the cost of those film rights and television dramas amounting to approximately HK$61,216,000, which were previously included as the segment assets of the satellite television segment in 2001.

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		PRC-Mainland (including Macau)		Other areas		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	127,171	22,800	41,681	56,621	7,426	4,955	176,278	84,376
Other segment information:								
Segment assets	1,853,323	1,872,204	45,127	31,617	2,826	8,352	1,901,276	1,912,173
Unallocated assets							2,683	51,965
Total assets							1,903,959	1,964,138
Capital expenditure	3,311	48,931	22,772	11,263	—	—	26,083	60,194

Notes to Financial Statements

31st December, 2002

5. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year.

		Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Rental expense paid to a related company (a)	(i)	**2,525**	2,238
Hotel management, royalty and marketing fees received from hotels held by related companies (a)	(ii)	**7,426**	5,056
Hotel management fees paid to a related company (a)	(iii)	**1,353**	1,948
Legal fees paid to Boughton Peterson Yang Anderson	(iv)	**—**	762
Interest income on an amount due from Furama Hotel Enterprises Limited *(note 18)*		**75,002**	75,002
Interest income from an associate	(v)	**3,293**	1,654
Interest income from a jointly-controlled entity	(vi)	**—**	379
Programme production costs paid to a jointly-controlled entity	(vii)	**26,754**	—
Purchases of film rights from an associate	(viii)	**107,220**	50,600
Distribution and licence fee income from an associate	(ix)	**8,048**	—
Advertising income from a related company (a)	(x)	**1,800**	—
Concert production fee paid to a jointly-controlled entity	(xi)	**8,613**	—

(a) The related companies are subsidiaries of Lai Sun Development Company Limited ("LSD"), which is a substantial shareholder holding a 49.99% equity interest in the Company.

5. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The rental is charged with reference to market rates.

(ii) The hotel management, royalty and marketing fees are charged to the hotels at certain percentages ranging from 1% to 10% (2001: 1% to 10%) on the gross revenue or operating profits of the hotels.

(iii) The hotel management fees paid are charged at certain percentages ranging from 1.5% to 1.8% (2001: 1.5% to 1.8%) on the gross revenue of the hotels.

(iv) The legal fees were charged by Boughton Peterson Yang Anderson for legal services rendered to the Group at market rates. Mr. Victor Yang, a director of the Company who resigned on 9th December 2002, is a partner of the law firm.

(v) The interest income from an associate was charged at 1% above the prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited (the "HSBC prime rate") per annum or at HSBC prime rate per annum or at 1.75% above the United States prime rate per annum.

(vi) The interest income from a jointly-controlled entity was charged at 1% above the HSBC prime rate per annum.

(vii) The programme production costs were charged based on the actual cost incurred plus a margin as agreed.

(viii) The film rights were purchased from an associate of the Group pursuant to the terms as stipulated in the sale and purchase agreement.

(ix) The distribution and licence fee income was charged to an associate based on contract terms.

(x) The advertising income was charged to a related company with reference to the market rates.

(xi) The concert production fee paid to a jointly-controlled entity was based on contract terms.

6. TURNOVER AND REVENUE

An analysis of turnover and other revenue is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Turnover		
Advertising income	**54,151**	79,421
Hotel management fee income	**7,426**	4,955
Distribution fee income	**18,324**	—
Entertainment event income	**94,277**	—
Internet maintenance service fee income	**1,307**	—
Television technical service income	**793**	—
	176,278	84,376
Other revenue		
Interest income	**78,536**	82,784
Others	**4,256**	3,793
	82,792	86,577
	259,070	170,953

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31st December, 2002

7. LOSS FROM OPERATING ACTIVITIES

	Notes	Group 2002 HK$'000	2001 HK$'000
This is arrived at after crediting:			
Share of net income from entertainment events organised by other co-investors *		2,245	—
Write-back of provisions for bad and doubtful debts *		9,287	1,531
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited *(note 35a)* *		12,096	—
Write-back of overprovisions *		2,700	—
and after charging:			
Cost of self-produced and purchased programmes		50,813	28,547
Cost of services provided		153,308	75,921
Staff costs:			
Wages and salaries ** (including directors' emoluments — *see note 9*)		63,992	66,885
Pension contributions		1,058	1,736
Less: Forfeited contributions		—	—
Net pension contributions		1,058	1,736
		65,050	68,621
Auditors' remuneration		900	850
Depreciation **	13	13,828	8,224
Minimum lease payments in respect of land and buildings incurred for:			
Entertainment events#		4,374	—
Others		3,184	3,378
Contingent rents incurred for entertainment events#		11,860	—
Total operating lease payments		19,418	3,378
Foreign exchange losses, net		—	868
Impairment of a long term investment*	14	4,681	29,871
Loss on disposal of a long term investment *		501	—
Impairment loss of self-produced and purchased programmes*		6,661	—
Amortisation of self-produced and purchased programmes***		5,934	—
Amortisation of goodwill on acquisition of associates and a jointly-controlled entity*		—	1,763
Provision for an amount due from an associate *		2,702	—
Unrealised holding loss on short term investments *		291	—
Provision for bad and doubtful debts*		1,549	1,119
Write-off of deposits paid *		—	3,412
Loss on disposal of fixed assets*		224	792

* *These items are included in the "Other operating gains/(expenses), net" as shown on the face of the consolidated profit and loss account.*

** *Wages and salaries of HK$10,366,000 (2001: HK$7,519,000) and depreciation charge of HK$4,832,000 (2001: HK$2,305,000) are included in the cost of sales.*

*** *These items are included in the cost of sales of self-produced and purchased programmes.*

\# *These items are included in the cost of services provided. The contingent rents are charged based on a certain percentage of the gross ticket proceeds collected in respect of the entertainment events.*

8. FINANCE COSTS

	Group 2002 HK$'000	2001 HK$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**968**	1,947
Interest on loan from a director	**349**	-
Interest on finance leases	**16**	17
Bank charges	**375**	2,177
	1,708	4,141

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group 2002 HK$'000	2001 HK$'000
Fees	**480**	480
Other emoluments:		
Basic salaries, bonuses, housing and other allowances, and benefits in kind	**22,994**	31,941
Pension scheme contributions	**215**	217
	23,689	32,638

Directors' fees of HK$480,000 (2001: HK$480,000) were paid to two (2001: two) independent non-executive directors during the year.

Notes to Financial Statements

31st December, 2002

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The number of directors whose emoluments fell within the designated bands is as follows:

	Group Number of directors 2002	2001
Nil — HK$1,000,000	**10**	8
HK$1,000,001 — HK$1,500,000	**2**	3
HK$1,500,001 — HK$2,000,000	**—**	1
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**	—
HK$12,000,001 — HK$12,500,000	**1**	—
HK$19,000,001 — HK$19,500,000	**—**	1
	15	15

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

(b) Employees' emoluments

The five highest paid employees during the year included three (2001: four) directors, the details of whose emoluments are set out above. Details of the remuneration of the remaining two (2001: one) non-director, highest paid employees are as follows:

	Group 2002 HK$'000	2001 HK$'000
Salaries, allowances and benefits in kind	**3,470**	2,142
Pension scheme contributions	**50**	90
	3,520	2,232

Notes to Financial Statements

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments (continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group Number of employees 2002	2001
HK$1,500,001 — HK$2,000,000	**2**	—
HK$2,000,001 — HK$2,500,000	**—**	1
	2	1

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group 2002 HK$'000	2001 HK$'000
Provision for tax for the year:		
Hong Kong	**4,723**	3,195
Elsewhere	**162**	393
Deferred *(note 19)*	**661**	699
	5,546	4,287
Prior years' overprovisions:		
Hong Kong	**(6,892)**	(3,000)
Elsewhere	**(662)**	(942)
	(7,554)	(3,942)
Associates:		
Hong Kong	**1,023**	1,785
Elsewhere	**—**	—
	1,023	1,785
Tax charge/(credit) for the year	**(985)**	2,130

Notes to Financial Statements

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11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company during the year was HK$136,185,000 (2001: HK$934,910,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$68,799,000 (2001: HK$181,688,000), and the weighted average of 571,184,927 (2001: 561,493,823) ordinary shares in issue throughout the year.

Diluted loss per share amounts for the years ended 31st December, 2002 and 2001 have not been shown because the options outstanding during these years had no dilutive effect on the basic loss per share for these years.

13. FIXED ASSETS

Group

	31st December, 2001 HK$'000	Additions HK$'000	Disposals HK$'000	Exchange realignments HK$'000	**31st December, 2002 HK$'000**
Cost:					
Construction in progress	12,262	22,399	—	—	**34,661**
Land and buildings	75,000	—	—	—	**75,000**
Leasehold improvements	23,845	3,024	(199)	—	**26,670**
Furniture, fixtures and equipment	3,626	284	(162)	(5)	**3,743**
Broadcast operations and engineering equipment	24,692	128	—	—	**24,820**
Motor vehicles	276	—	—	—	**276**
Computers	13,933	248	(132)	(7)	**14,042**
	153,634	26,083	(493)	(12)	**179,212**
Accumulated depreciation:					
Land and buildings	968	1,935	—	—	**2,903**
Leasehold improvements	3,854	6,077	—	—	**9,931**
Furniture, fixtures and equipment	1,329	597	(138)	(5)	**1,783**
Broadcast operations and engineering equipment	1,193	2,475	—	—	**3,668**
Motor vehicles	10	55	—	—	**65**
Computers	4,305	2,689	(126)	(6)	**6,862**
	11,659	13,828	(264)	(11)	**25,212**
Net book value	141,975				**154,000**

13. FIXED ASSETS (continued)

The Group's land and buildings are situated in Hong Kong, held under medium term leases and were pledged to secure general banking facilities granted to the Group (note 29).

The net book value of assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2002, amounted to HK$110,000 (2001: HK$144,000).

The cost of the construction in progress comprises the premium paid for land registered in Macau with a medium term lease and expenditure incurred for the development of a building constructed thereon.

14. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	HK$'000
Unlisted equity investments, at cost	**4,681**	39,553
Provisions for impairment	**(4,681)**	(29,871)
	—	9,682

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**1,092,730**	1,145,820
Amounts due from subsidiaries	**2,727,843**	2,733,394
	3,820,573	3,879,214
Provisions for impairment	**(2,082,814)**	(2,047,467)
	1,737,759	1,831,747

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment except as set out below:

(i) an amount of HK$2,548,000 (2001: HK$39,134,000), which bears interest at 15% per annum;

(ii) an amount of HK$11,000,000 (2001: HK$7,500,000), which bears interest at 1% above the HSBC prime rate per annum; and

(iii) an amount of HK$1,500,040,000 (2001: HK$1,500,040,000), which bears interest at 1% per annum.

Notes to Financial Statements

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15. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ place of operations	Nominal value of issued/registered share capital and class of shares held	Effective % of capital held by Company	Group	Principal activities
Dragon Age Enterprise Inc.	British Virgin Islands	US$1 Ordinary	100	100	Investment holding
East Asia Entertainment Limited	Hong Kong	HK$2 Ordinary	—	100	Entertainment activity production
East Asia Satellite Television Limited	Hong Kong	HK$2 Ordinary	—	100	Programme production, distribution and broadcasting
East Asia-Televisão Por Satélite, Limitada*	Macau	MOP$25,000 Quota	—	100	Programme production, distribution and broadcasting
Gainful Creation Limited	Hong Kong	HK$2 Ordinary	—	100	Entertainment activity production
Glynhill International Limited	Hong Kong	HK$912,623,351 Ordinary	100	100	Investment holding
Golden Pool Enterprise Limited	Hong Kong	HK$2 Ordinary	—	100	Investment holding
Houseman International Limited	British Virgin Islands	US$2 Ordinary	100	100	Investment holding
Kaleidoscope International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Property holding
Lai Sun Technology Company Limited	Hong Kong	HK$2 Ordinary	—	100	Provision of Internet maintenance services

15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ place of operations	Nominal value of issued/registered share capital and class of shares held	Effective % of capital held by Company	Effective % of capital held by Group	Principal activities
Lancaster Technology Limited	British Virgin Islands	US$1 Ordinary	100	100	Investment holding
Skymaster International Inc.	British Virgin Islands	US$1 Ordinary	100	100	Investment holding
Sweetfun Limited	Hong Kong	HK$10 Ordinary	—	60	Entertainment activity production
Vision Advertising (HK) Limited	Hong Kong	HK$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited* ##	The People's Republic of China	HK$3,000,000#	—	90	Provision of advertising agency services
Zimba International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Trading of marketable securities

\# *The amount stated represents the paid-up capital in the People's Republic of China*

\#\# *This subsidiary is a co-operative joint venture*

* *Audited by public accountants other than Ernst & Young*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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15. INTERESTS IN SUBSIDIARIES (continued)

Note:

On 8th November, 2002, the Company and LSD entered into an agreement (the "eSun Agreement") pursuant to which the Company agreed to sell and LSD agreed to purchase, the entire issued share capital of Houseman International Limited ("HIL"), a wholly-owned subsidiary of the Company which holds a 50% equity interest in HKATV.com Limited, for a consideration of HK$46,080,000 (the "Consideration"). Since LSD is a substantial shareholder of the Company, the transaction constituted a connected transaction under Chapter 14 of the Listing Rules and as the total consideration represents less than 3% of the book value of the net tangible assets of the Group, the transaction is only subject to the disclosure requirements set out in Chapter 14 of the Listing Rules and shareholders' approval is not required. Also on 8th November, 2002, LSD entered into a conditional agreement (the "DGI Agreement") with Dragon Goodwill International Limited ("DGI") to sell to DGI the entire share capital of HIL together with LSD's 32.75% interest in Asia Television Limited ("ATV"). Thereafter, an amount of HK$1,280,000 was paid by LSD to the Company as part of the Consideration to the Company which was accounted for in the creditors and accruals account of the Group's and the Company's balance sheet as at 31st December, 2002. According to the terms of the eSun Agreement, the transaction stipulated therein should be completed on or before 15th May, 2003 and should take place simultaneously with the completion of the DGI Agreement. Up to the date of this report, the transactions have not been completed.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002	2001
	HK$'000	HK$'000
Share of net liabilities	**(4,771)**	(2,658)
Goodwill on acquisition, net of amortisation and impairment	**—**	—
	(4,771)	(2,658)
Amounts due from jointly-controlled entities	**12,080**	8,664
	7,309	6,006
Provision for an amount due from a jointly-controlled entity	**(6,530)**	—
	779	6,006

Except for an amount of HK$11,000,000 (2001: HK$7,500,000) which is interest-bearing at 1% above the HSBC prime rate per annum, the amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of jointly-controlled entities are as follows:

Name of Company	Business structure	Place of incorporation/ registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
The Artiste Campus International Limited	Corporate	Hong Kong	50%	50%	50%	Provision of agency services to artistes
Much Entertainment Limited	Corporate	Hong Kong	50%	50%	50%	Provision of concert production services

The interests in jointly-controlled entities are indirectly held by the Company.

In the prior year, an impairment of the unamortised goodwill on the acquisition of a jointly-controlled entity and an amortisation of such goodwill of HK$7,260,000 and HK$349,000, respectively, were charged to the consolidated profit and loss account.

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share of net assets	**36,708**	44,764	**—**	—
Amounts due from associates, net of provisions	**3,388**	4,200	**1,012**	411
Amounts due to associates	**—**	(76)	**—**	(2,250)
Loans to associates, net of provisions	**8,807**	37,095	**3,807**	32,095
	48,903	85,983	**4,819**	30,256

The balances with associates, including loans to associates, are unsecured, interest-free and have no fixed terms of repayment, except for (i) an amount of HK$807,000 (2001: HK$16,495,000) which bears interest at 1% above the HSBC prime rate per annum and (ii) HK$3,000,000 which bears interest at the HSBC prime rate per annum. In the prior year, an amount of HK$15,600,000 was charged at an interest rate of 1.75% above the United States prime rate per annum.

17. INTERESTS IN ASSOCIATES (continued)

In the prior year, an impairment of the unamortised goodwill on the acquisition of associates and amortisation of such goodwill of HK$25,730,000 and HK$1,414,000, respectively, were charged to the consolidated profit and loss account.

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation/ registration	Class of shares held	% of equity attributable to the Group	Principal activities
Coolala International Limited	Corporate	Hong Kong	Ordinary	50%	Development and operation of a website
HKATV.com Limited*	Corporate	Hong Kong	Ordinary	50%	Development and operation of a website
Media Asia Holdings Limited	Corporate	British Virgin Islands	Ordinary	35.13%	Film production and distribution and investment holding

* *Audited by public accountants other than Ernst & Young*

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

18. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED ("FHEL")

On 11th February, 1999, the Company and its wholly-owned subsidiary, Golden Pool Enterprise Limited ("GPEL"), entered into an agreement (the "Development Agreement") with LSD and its wholly-owned subsidiary, FHEL, with respect to the purchase by GPEL of the retail and hotel portions to be developed of the Furama Hotel Hong Kong (the "Furama Hotel"), which is a property under construction situated in Hong Kong which is being redeveloped into a composite retail, hotel and office building (the "New Building"), which development is expected to be completed in or around May 2004.

18. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED ("FHEL") (continued)

The consideration of HK$1,900,000,000 for the purchase of the retail and hotel portion of the Furama Hotel was fully paid by GPEL to FHEL in 1999. According to the Development Agreement, the prepaid consideration was interest-bearing at the higher of 8% or LIBOR plus 2% per annum for an amount of HK$964,923,000, and at the three-month deposit rate offered by the Group's principal banks plus 1% per annum for the remaining HK$935,077,000. The interest income received and receivable from the prepaid consideration during the year ended 31st December, 2000 was HK$69,787,000.

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the "Reorganisation Agreement"). Pursuant to the Reorganisation Agreement, the Development Agreement was cancelled on 29th June, 2000 upon approval by the shareholders of the Company and LSD. Accordingly, the prepaid consideration of HK$1,900,000,000 became immediately due from FHEL.

In connection with the Reorganisation Agreement, the Company transferred certain hotel and ancillary assets, through the disposal of certain subsidiaries, associates and a long term investment, with an aggregate value of HK$685,410,000 to LSD and, at the same time, LSD transferred certain technology-oriented assets with an aggregate value of HK$1,085,370,000 to the Company. The excess consideration of HK$399,960,000 payable by the Company to LSD in respect of such asset transfers was deducted from the outstanding principal amount of the indebtedness of HK$1,900,000,000, which FHEL owed to GPEL, as a result of the cancellation of the Development Agreement as mentioned above. The amount due from FHEL was consequently reduced to HK$1,500,040,000 (the "Debt").

An intercompany debt deed was entered into by the Company, LSD, FHEL and GPEL on 30th June, 2000 (the "Debt Deed"), pursuant to which the Company agreed to defer the settlement of the Debt to the earlier of 31st December, 2002 or the day on which the Exchangeable Bonds and Convertible Bonds 2002 of the LSD group are repaid in full. LSD guaranteed the repayment of the outstanding principal and accrued interest payable to GPEL. The Company is also entitled to share, on a pari passu and pro rata basis with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (the "Parties"), the following security:

(a) a limited recourse second charge over 6,500 shares of HK$1.00 each in the issued share capital of Diamond String Limited (which owns the Ritz-Carlton Hong Kong Hotel) beneficially owned by LSD; and

(b) a negative pledge granted by LSD, pursuant to which LSD has agreed not to create additional security over certain major properties of the LSD group without the prior consent of the Parties.

Notes to Financial Statements

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18. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED ("FHEL") (continued)

The Debt was interest-bearing at 5% per annum. The interest income received during the year in this respect was HK$75,002,000 (2001: HK$75,002,000). As noted above, the Debt was repayable on or before 31st December, 2002. The directors have discussed the repayment of the Debt with the management of FHEL and LSD and obtained an understanding that LSD is currently working closely with its legal and financial advisors to formulate a plan for the settlement and/or repayment of the Debt due to the Group, the amounts due to Exchangeable Bondholders and the Convertible Bondholders, and the other borrowings. Pending the outcome of the LSD debt restructuring programme, the Group is uncertain as to the extent of the recovery of the Debt. However, although the directors of the Company consider that the recoverable amount of the Debt is currently uncertain, in the absence of reliable information, they are unable to estimate the amount of any specific provision against such balance at the current time.

19. DEFERRED TAX ASSETS

The principal components of the net deferred tax assets recognised at the balance sheet date mainly comprised capital allowances on fixed assets.

	Group	
	2002	2001
	HK$'000	HK$'000
At beginning of year	**661**	1,360
Charge for the year *(note 10)*	**(661)**	(699)
At end of year	—	661

The Group and Company have no significant potential deferred tax liabilities for which provision has not been made.

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Accelerated capital allowances on fixed assets	—	(48)
Tax losses available for carryforward	—	4,539
	—	4,491

Notes to Financial Statements

20. FILM RIGHTS

	Group HK$'000
Cost:	
At 1st January, 2002	—
Additions	75,743
Reclassified from self-produced and purchased programmes	37,366
At 31st December, 2002	113,109
Amortisation:	
At 1st January, 2002 and 31st December, 2002	—
Net book value:	
At 31st December, 2002	113,109
At 31st December, 2001	—

On 24th December, 2001, the Group entered into various licence agreements (the "Agreements") with Media Asia Holdings Limited and its subsidiaries (the "MAH group"), an associate of the Group, to license from the MAH group certain television rights (the "TV Rights") in the People's Republic of China, including Hong Kong and Macau, for a total of 110 films for a period of 7.5 years, commencing from 24th December, 2001. Under the Agreements, the Group has the right to license all or any of its TV Rights to third parties. As at 31st December, 2001, the carrying value of the TV Rights to the Group, after eliminating the Group's share of the unrealised gain recorded in MAH group in respect of this transaction, amounted to HK$37,366,000 and such amount was included in the Group's consolidated balance sheet as self-produced and purchased programmes at 31st December, 2001.

During the year on 21st December, 2002, the Group entered into various supplemental agreements (the "Supplemental Agreements") with the MAH group to extend the terms of the TV Rights for an additional 3 years. Upon entering into the Supplemental Agreements, the Group obtained the offer to acquire, and have on 24th December, 2002 executed various deeds of assignments to effect the acquisition, from the MAH group of all rights, titles and interests in perpetuity to 96 films, out of which the TV Rights of 90 films already had been licensed to the Group in 2001 and 2002 as mentioned above. After eliminating the Group's share of unrealised gain recorded in the MAH group's accounts in respect of the above transactions, the cost to the Group to extend the terms of the TV Rights for 3 years and to acquire the 96 film rights as aforementioned amounted to HK$75,743,000 and such amount was included in the Group's consolidated balance sheet at 31st December, 2002. As a result of the Group's obtaining of the aforesaid rights to the films, the Group changed its strategic purpose in holding the 110 films TV Rights acquired in 2001 and reclassified their carrying value of HK$37,366,000 from self-produced and purchased programmes to film rights.

Notes to Financial Statements

20. FILM RIGHTS (continued)

As at 31st December, 2002, the film rights of the Group represented all rights, titles and interests (including the 10.5 years TV Rights) in 96 films (the "96 Film Rights") of HK$93,606,000 and the TV Rights to another 20 films for a period of 10.5 years (the "20 Film Rights") of HK$19,503,000. The directors engaged Astoria Films Distribution Limited, an independent film distributor, to perform a valuation (the "Valuation") of the 96 Film Rights as at 31st December, 2002. Having regard to the Valuation, which indicated that the fair value of the Group's 96 Film Rights as at 31st December, 2002 was above their cost as stated in the Group's financial statements and the current market conditions, the directors are of the opinion that there was no impairment in the Group's film rights as at 31st December, 2002.

21. SHORT TERM INVESTMENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments				
at market value:				
Hong Kong	**46**	933	—	443
Elsewhere	**89**	237	—	—
	135	1,170	—	443

22. DUE FROM A RELATED COMPANY

The prior year's balance represented interest receivable from FHEL, which was secured (note 18), interest-free and was settled during the year.

23. LOAN RECEIVABLE

The loan represents an advance to an independent third party, which is secured by certain equity interests held by the borrower, bears interest at a rate of 15% per annum and is repayable within one year.

24. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. An aged analysis of the trade debtors as at 31st December, 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Trade debtors:		
Less than 30 days	**18,153**	4,134
31 — 60 days	**2,918**	1,724
61 — 90 days	**52**	250
Over 90 days	**9,355**	3,890
	30,478	9,998
Other debtors and deposits	**29,868**	66,548
	60,346	76,546

The above aged analysis, stated net of provisions for doubtful debts, was prepared based on the dates when revenue is recognised from the trade transactions.

Included in trade debtors is an amount of HK$1,800,000 (2001: Nil) due from a subsidiary of LSD arising from the ordinary course of business of the Group.

25. CASH HELD IN TRUST

With respect to the dissolution of the Whistler Mountain Inn, Limited Partnership (the "Partnership") in the prior year, the Group had entered into a settlement agreement with the limited partner, and all the cash held in trust was released during the year. Further details of this are set out in note 35(b) to the financial statements.

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26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**11,467**	22,116	**115**	118
Time deposits	**7,259**	31,749	**—**	1,000
	18,726	53,865	**115**	1,118

27. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at 31st December, 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Trade creditors:		
Less than 30 days	**4,808**	3,224
31 — 60 days	**2,992**	2,853
61 — 90 days	**398**	2,827
Over 90 days	**6,277**	5,861
	14,475	14,765
Other creditors and accruals	**19,620**	15,196
	34,095	29,961

The above aged analysis was prepared based on the dates of receipt of the goods and services purchased.

28. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment. These leases are classified as finance leases and have remaining lease terms of three years.

At 31st December, 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2002 HK$'000	Minimum lease payments 2001 HK$'000	**Present value of minimum lease payments 2002 HK$'000**	Present value of minimum lease payments 2001 HK$'000
Amounts payable:				
Within one year	**44**	44	**31**	27
In the second year	**44**	44	**35**	32
In the third to fifth years, inclusive	**44**	86	**42**	75
Total minimum finance lease payments	**132**	174	**108**	134
Future finance charges	**(24)**	(40)		
Total net finance lease payables	**108**	134		
Portion classified as current liabilities	**(31)**	(27)		
Long term portion	**77**	107		

29. INTEREST-BEARING BANK LOAN

Group and Company

The bank loan was secured by fixed charges over the Group's land and buildings with an aggregate net book value at the balance sheet date of approximately HK$72,097,000 (2001: HK$74,032,000).

30. LOAN FROM A DIRECTOR

The balance is unsecured, bears interest at 1% per month and is repayable within one year.

Notes to Financial Statements

31. SHARE CAPITAL

Shares

	2002		2001	
	Number of shares '000	**Nominal value HK$'000**	Number of shares '000	Nominal value HK$'000
Authorised:				
Ordinary shares of HK$0.50 each	**2,000,000**	**1,000,000**	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**571,185**	**285,592**	571,185	285,592

During the year, there was no movement in the Company's share capital. The movements in share capital in the prior year were detailed as follows:

(a) On 16th November, 2000, the Company proposed to raise not less than HK$160,000,000, before expenses, by issuing approximately 188,528,309 new shares of the Company of HK$0.50 each, by way of a rights issue at a price of HK$0.85 per rights share on the basis of one rights share for every two existing shares held on 29th December, 2000. On 16th January, 2001, the directors announced that the rights issue of 188,528,309 new shares had become unconditional and payable in full on acceptance. Accordingly, on 16th January, 2001, 188,528,309 new ordinary shares of HK$0.50 each were issued at a price of HK$0.85 per share, to provide funds for the acquisition and establishment of a television programme production centre and facilities to be set up at both the Hong Kong Office and a site in the Macau Special Administrative Region, and for working capital for the Group.

(b) On 9th February, 2001, a conditional sale and purchase agreement (the "Agreement") was entered into between Autumn Gold Limited ("Autumn Gold"), a wholly-owned subsidiary of the Company, and Mr. Chan Chee Kheong ("Mr. Chan"). Pursuant to the Agreement, Autumn Gold acquired from Mr. Chan five existing shares of HK$1.00 each, being a 50% equity interest, of The Artiste Campus International Limited, a company incorporated in Hong Kong with limited liability, for a total consideration of HK$7,600,005, comprising (i) HK$2,000,005 in cash, and (ii) the balance of HK$5,600,000 by the allotment and issue of a total of 5,600,000 new shares of HK$0.50 each in the share capital of the Company, at an issue price of HK$1.00 per share. The allotment of the 5,600,000 new ordinary shares of HK$0.50 each at a price of HK$1.00 per share to Mr. Chan was completed on 4th April, 2001, on which date the market price of the shares of the Company was HK$0.87 per share.

31. SHARE CAPITAL (continued)

Shares (continued)

A summary of the movements in the Company's ordinary share capital in both the current year and prior year is as follows:

	Number of ordinary shares '000	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1st January, 2001	377,057	188,528	2,822,477	3,011,005
Issue of rights shares (a)	188,528	94,264	65,985	160,249
Shares issued as partial consideration for the acquisition of a jointly-controlled entity (b)	5,600	2,800	2,800	5,600
	194,128	97,064	68,785	165,849
Share issue expenses	—	—	(2,629)	(2,629)
At 31st December, 2001 and 31st December, 2002	571,185	285,592	2,888,633	3,174,225

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as it is also a requirement of the Listing Rules.

The Company operates an employee share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible employees who contribute to the success of the Group's operations. Eligible employees of the Share Option Scheme include executive directors and other employees of the Company or any subsidiary. The Share Option Scheme was adopted by the Company on 25th November, 1996 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years.

Notes to Financial Statements

32. SHARE OPTION SCHEME (continued)

No share options were granted or exercised during the year and all the share options outstanding as at 1st January, 2002 lapsed during the year. Consequent upon the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no options may be granted under the Share Option Scheme unless such grant is made in compliance with the amended rules. As at the date of the annual report, no amended share option scheme has been adopted. The terms of the Share Option Scheme adopted by the Company on 25th November, 1996 are:

(a) The maximum number of shares of the Company (the "Shares") in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme will not, when aggregated with any Shares subject to any other schemes, exceed such number of Shares as shall represent 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the Share Option Scheme.

(b) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

(c) An offer of the grant of an option shall remain open for acceptance by the employee concerned for a period of 28 days from the date upon which it is made. An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising the acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK$10 by way of consideration for the grant thereof, is received by the Company. An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme and the conditions of the grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.

(d) The subscription price shall be a price notified by the board of the Company to an employee being (i) not less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date; or (ii) the nominal value of the Shares, whichever is the higher.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

32. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme during the year ended 31st December, 2002:

Name	Date of grant	No. of Options: At 1st January, 2002 **	Lapsed during the year **	At 31st December, 2002 **	Option Period	Subscription Price: At grant date	Adjusted**
Directors							
Lien Jown Jing, Vincent	12/02/2000	1,500,000	1,500,000	—	13/08/2000 — 12/08/2002*	HK$0.610 per share	HK$2.655 per share
Stephen Hung (resigned on 1/4/2002)	12/02/2000	2,250,000	2,250,000	—	13/08/2000 — 12/08/2002*	HK$0.610 per share	HK$2.655 per share
Lee Po On	04/03/2000	6,000,000	6,000,000	—	05/09/2000 — 04/09/2002	HK$1.400 per share	HK$6.094 per share
Lam Kin Ngok, Peter	12/02/2000	6,000,000	6,000,000	—	13/08/2000 — 12/08/2002	HK$0.610 per share	HK$2.655 per share
	04/03/2000	4,500,000	4,500,000	—	05/09/2000 — 04/09/2002	HK$1.400 per share	HK$6.094 per share
Victor Yang (resigned on 9/12/2002)	12/02/2000	300,000	300,000	—	13/08/2000 — 12/08/2002*	HK$0.610 per share	HK$2.655 per share
	04/03/2000	3,000,000	3,000,000	—	05/09/2000 — 04/09/2002	HK$1.400 per share	HK$6.094 per share
		23,550,000	23,550,000	—			
Other employees							
In aggregate	12/02/2000	1,500,000	1,500,000	—	13/08/2000 — 12/08/2002*	HK$0.610 per share	HK$2.655 per share
	28/04/2000	450,000	450,000	—	29/10/2000 — 28/10/2002*	HK$0.283 per share	HK$1.232 per share
		1,950,000	1,950,000	—			
		25,500,000	25,500,000	—			

* *in 4 six-month tranches*

** *As adjusted by the share consolidation and the rights issue of the Company*

Notes to Financial Statements

31st December, 2002

33. RESERVES

Group

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2001		2,822,477	891,289	(1,991,143)	1,722,623
Issue of rights shares	31	65,985	—	—	65,985
Shares issued as partial consideration for acquisition of a jointly-controlled entity	31	2,800	—	—	2,800
Share issue expenses	31	(2,629)	—	—	(2,629)
Exchange realignments		—	—	(1,356)	(1,356)
Loss for the year		—	—	(181,688)	(181,688)
At 31st December, 2001 and 1st January, 2002		2,888,633	891,289	(2,174,187)	1,605,735
Exchange realignments		—	—	(522)	(522)
Loss for the year		—	—	(68,799)	(68,799)
At 31st December, 2002		2,888,633	891,289	(2,243,508)	1,536,414
Retained by:					
Company and subsidiaries		2,888,633	891,289	(2,197,111)	1,582,811
Jointly-controlled entities		—	—	(4,771)	(4,771)
Associates		—	—	(41,626)	(41,626)
At 31st December, 2002		2,888,633	891,289	(2,243,508)	1,536,414
Company and subsidiaries		2,888,633	891,289	(2,158,424)	1,621,498
A jointly-controlled entity		—	—	(2,658)	(2,658)
Associates		—	—	(13,105)	(13,105)
At 31st December, 2001		2,888,633	891,289	(2,174,187)	1,605,735

Included in the debit balance of accumulated losses as at 31st December, 2002 are accumulated credit balances in respect of exchange realignments amounting to HK$20,006,000 (2001: HK$20,528,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.

33. RESERVES (continued)

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2001	2,822,477	845,455	(1,217,789)	2,450,143
Issue of rights shares	65,985	—	—	65,985
Shares issued as partial consideration for acquisition of a jointly-controlled entity	2,800	—	—	2,800
Share issue expenses	(2,629)	—	—	(2,629)
Loss for the year	—	—	(934,910)	(934,910)
At 31st December, 2001 and 1st January, 2002	2,888,633	845,455	(2,152,699)	1,581,389
Loss for the year	—	—	(136,185)	(136,185)
At 31st December, 2002	2,888,633	845,455	(2,288,884)	1,445,204

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation in November 1996, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(i) In December 2002, the Group acquired certain film rights from an associate at a consideration of HK$107,220,000 which was settled through the loans to associates account.

(ii) On 4th April, 2001, the Company issued a total of 5,600,000 new ordinary shares of HK$0.50 each at an ascribed issue price of HK$1.00 per share as partial consideration for the acquisition of an interest in a jointly-controlled entity, as detailed in note 31(b).

(iii) In 2001, the Group recorded a gain of HK$2,600,000 on the deemed disposal, and a goodwill of HK$14,660,000 on the deemed acquisition, of certain interests in an associate.

Notes to Financial Statements

31st December, 2002

35. LITIGATION

(a) In 1998, the Group disposed of its 50% interest in Delta Hotels Limited ("DHL") to Canadian Pacific Hotels Corporation (the "Purchaser"). Under the terms of the sale and purchase agreement, C$10 million (approximately HK$50 million) of the sales proceeds was held in escrow (the "Holdback Funds") pending the expiration of a warranty period.

The Purchaser also made an additional payment of C$14.5 million (approximately HK$72.5 million) that was held in escrow in respect of potential increases in the purchase price (the "Earnout Funds").

The Purchaser made claims against the Holdback Funds in prior year. Subsequently, C$8 million (approximately HK$40 million) of the Holdback Funds was released to the Group and the other owner (the "Vendors") during 2000. The Vendors commenced an action against the Purchaser for the remaining C$2 million (approximately HK$10 million) and the Purchaser issued a counterclaim for the C$2 million (approximately HK$10 million).

Subsequently, the action was expanded to include a claim by the Vendors for C$2.5 million (approximately HK$12.5 million) of the Earnout Funds which had become disputed.

The action has recently been settled. Pursuant to the settlement, C$950,000 (approximately HK$4,750,000) is to be paid to the Group in relation to the Holdback Funds and C$1,460,000 (approximately HK$7,300,000) is to be paid to the Group in respect of the Earnout Funds. These amounts to be paid to the Group are for principal only and are subject to adjustment for interest, commissions and withholding tax. Since the litigation has now been concluded, a recovery of C$2,419,200 (approximately HK$12,096,000) has been credited to the consolidated profit and loss account for the year ended 31st December, 2002.

(b) In the 1999, 2000 and 2001 annual reports, it was reported that the Group had lost its appeal in the litigation in respect of the Whistler Mountain Inn, Limited Partnership ("WMILP") against the limited partners. Subsequent to the appeal, the Group settled with the plaintiffs the quantum of damages, interest and costs of the action, and the court-appointed receiver of the limited partnership commenced the liquidation of the limited partnership. However, the action with the limited partners and the subsequent settlement did not deal with a separate C$600,000 (approximately HK$3,000,000) claim from one of the limited partners against the Group and the other limited partners. Out of the amount of C$600,000 (approximately HK$3,000,000) as mentioned above, C$455,200 (approximately HK$2,276,000) was retained by the receiver in trust for the Group. During the year, a settlement agreement was reached by the Group and the limited partner and funds on hand held in trust by the receiver in the sum of C$470,911 (approximately HK$2,355,000) were remitted to the Group and all matters in respect of the WMILP have now been concluded.

The loss of the appeal in prior years has been covered by an indemnity from LSD and Mr. Lam Kin Ngok, Peter, a director of the Company.

35. LITIGATION (continued)

(c) In the 1999, 2000 and 2001 annual reports, it was reported that Sun Microsystems Inc. ("SMI") had commenced legal proceedings against the Group in March 2000, alleging the Group's use of the "eSun" trademark was a passing off of SMI's own trademarks. The parties have now reached a settlement to the dispute, pursuant to which each party undertakes not to interfere in the other party's use of the "eSun" mark in its current businesses.

(d) On 17th June, 2002, a Writ of Summons was issued in the Court of First Instance by East Asia Entertainment Limited ("EAE"), a wholly-owned subsidiary of the Company, and Active Union Limited ("AUL"), a 70% owned subsidiary of the Company, against Australasian Entertainment Corporation Limited ("AEC"), the minority shareholder of AUL and other related parties claiming, inter alia, loss and damages (amounts to be assessed) suffered in holding an entertainment show known as "Spectaculum". AEC counterclaimed the unsettled expenditure incurred in the show in the sum of HK$1,486,779. An application for summary judgement against Dale Rennie, a shareholder of AEC, for part of the amount claimed in the sum of US$81,000 (approximately HK$631,800), being a liquidated sum that he had personally undertaken to repay, was heard but dismissed by the Court with costs to Dale Rennie. Directions will be applied for in relation to the further conduct of the action. The directors consider that the outstanding claim should have no material adverse effect on the Group and no provision for the claim is required at this stage.

(e) On 29th July, 2002, a Writ of Summons was issued in the Court of First Instance by Glynhill International Limited ("GIL"), a wholly-owned subsidiary of the Company, against two defendants, Belford Pacific Limited and Tse Wan Chung Philip, for a sum of US$156,900 (approximately HK$1,223,820) plus interest, being a loan (the "Loan") owed by the two defendants and assigned by the original lender of the loan in favour of GIL. No defence has been filed by the defendants. The defendants have issued a Third Party Notice against Chau Hong Ming, Peter seeking indemnity from him against the Group's claim. Full provision for the Loan was made in the Group's financial statements in the prior year.

36. COMMITMENTS

(a) Commitments not provided for in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments contracted for	**42,441**	32,859	**—**	—

In addition, the Group has committed to invest in the development of a television city with a programme production centre in Macau, the completion of which is scheduled in 2004. At 31st December, 2002, the authorised but not contracted for commitment in respect of this project amounted to HK$225,891,000 (2001: HK$258,249,000).

Notes to Financial Statements

36. COMMITMENTS (continued)

(b) The Group leases certain of its office properties and a Macau production centre under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, and the lease term of the Macau production centre is twenty five years.

At 31st December, 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,648**	2,775	**504**	504
In the second to fifth years, inclusive	**4,149**	4,145	**—**	504
After five years	**15,412**	16,209	**—**	—
	22,209	23,129	**504**	1,008

(c) The Group has entered into an agreement to lease a satellite channel at an annual licence fee of US$800,000 for a term of twelve years. At 31st December, 2002, the total future minimum lease payments were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,234**	3,390	**—**	—
In the second to fifth years, inclusive	**24,936**	24,932	**—**	—
After five years	**30,897**	37,398	**—**	—
	62,067	65,720	**—**	—

37. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD *(note)*	**25,000**	25,000	**25,000**	25,000
Guarantee given to a supplier in connection with credit facilities given to a subsidiary	**—**	—	**2,000**	2,000
	25,000	25,000	**27,000**	27,000

Note:

In connection with the Reorganisation Agreement described further in note 18, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. ("GIGC") to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.

GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the "Land") on which the golf club is situated, which would show unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.

The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use rights certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK$25,000,000. As at the date of this report, the land use rights referred to above had not been obtained by GIGC.

38. POST BALANCE SHEET EVENT

As stated in the joint announcement made by the Company and LSD on 19th February, 2003, LSD, the substantial shareholder of the Company, on 29th January, 2003, requested the directors of the Company to put forward a proposal (the "Proposal") to the Company's shareholders other than members of the LSD group (the "Scheme Shareholders") regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act (the "Scheme"). The Proposal involves the cancellation and extinguishment of all of the shares in the Company held by the Scheme Shareholders as at 20th May, 2003 (the "Scheme Shares") in consideration for the payment of HK$0.28 (the "Cancellation Price") per Scheme Share by LSD to the Scheme Shareholders.

Upon the Scheme becoming effective, the Company would become an indirect wholly-owned subsidiary of LSD. The Company would apply to the Stock Exchange for the withdrawal of the listing of the Company's shares on the Stock Exchange immediately following the Scheme becoming effective. It is the intention of LSD to maintain the existing businesses of the Group upon the successful privatisation of the Company.

Notes to Financial Statements

38. POST BALANCE SHEET EVENT (continued)

As at the date of approval of these financial statements, the LSD group held approximately 285,512,791 shares in the Company, representing approximately 49.99% of the issued share capital of the Company. The shares in the Company held by the LSD group will not form part of the Scheme Shares and accordingly, will not be represented or voted at the meeting of the Scheme Shareholders conducted at the direction of the Supreme Court, at which the Scheme will be voted upon (the "Court Meeting").

A document dated 31st March, 2003 (the "Scheme Document") incorporating, inter alia, further details of the proposed privatisation of the Company by LSD by way of the Scheme, the letter from the Independent Board Committee of the Company, which includes Mr. Alfred Donald Yap and Mr. Low Chee Keong, and the letter from Somerley Limited, the independent financial adviser to the Independent Board Committee together with the recommendation from the Independent Board Committee to the Independent Shareholders (as defined in the Scheme Document) of the Company as to how they should vote on the Proposal, was dispatched by the Company to the shareholders of the Company on 31st March, 2003.

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

During the year, the directors considered it a fairer presentation to include in the cost of sales, certain costs incurred directly for television programme production and the operation of a satellite television channel, which in the previous years were classified as administrative expenses. Consequently, approximately HK$9,824,000, representing the aforesaid direct costs of operations, were reclassified from the administrative expenses to the cost of sales for the year ended 31st December, 2001.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17th April, 2003.