

# NOTES TO THE ACCOUNTS

## 1. REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Hong Kong on May 21, 1999 as a wholly-owned subsidiary of Wharf Communications Investments Limited (“Wharf Communications”), the immediate holding company, which is itself a wholly-owned subsidiary of The Wharf (Holdings) Limited (“Wharf”), the ultimate holding company which is incorporated in Hong Kong. As part of a group reconstruction of entities under the common control of Wharf (“the Reorganisation”), on November 1, 1999, the Company acquired the full ownership interest in the cable television, Internet, network and ancillary television operations of Wharf. References to the “Group” are to the Company and its subsidiaries, or, in respect of the period prior to November 1, 1999, the companies and entities that were assumed by the Group as part of the Reorganisation.

All entities which took part in the Reorganisation were wholly owned subsidiaries of Wharf before and immediately after the Reorganisation and consequently there was a continuation of the risks and benefits to the ultimate shareholders that existed prior to the Reorganisation. No share premium arose in connection with the Reorganisation. Minority interests, if any, in the net assets / liabilities of the Group were unaltered by the transfer.

In view of the foregoing, the Reorganisation has been accounted for as a reorganisation of businesses under common control under merger accounting. Accordingly, the consolidated accounts have been prepared on the basis of historical costs and as if the subsidiaries had been part of the Group throughout the periods presented.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the recording of certain investments in securities at fair value as explained in the accounting policies set out below.

**(c) Basis of consolidation**

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to December 31 each year. All material intra-Group transactions and balances are eliminated on consolidation.

As explained in Note 1, on November 1, 1999, the Company became the holding company of the Group. The Group has been treated as a continuing entity and accordingly the consolidated accounts have been prepared on the basis that the Company was the holding company of the Group for all years presented, rather than from November 1, 1999. Accordingly, the results and cash flows of the Group for the year ended December 31, 1999 included the results and cash flows of the Company and its subsidiaries with effect from January 1, 1999 or since their respective dates of incorporation, where this is a shorter period.

Goodwill / capital reserve arising on the acquisition of subsidiaries not connected with the Reorganisation, being the excess / shortfall of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is taken to reserves in the year in which it arises. On disposal of a subsidiary, any attributable amount of goodwill / capital reserve is included in the calculation of the profit or loss on disposal.

**(d) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost, less accumulated depreciation. Cost includes materials, labour and an appropriate proportion of overhead and borrowing costs directly attributable to acquisition, construction or production of such property, plant and equipment that necessarily take a substantial period of time to get ready for their intended use.

Depreciation is provided on a straight-line basis on the cost of the equipment required to support a fully operating network and cable television system at rates determined by the estimated useful lives of the assets of five to 20 years, adjusted by the appropriate pre-maturity fraction during the pre-maturity period, which began with the first earned subscriber revenue on October 31, 1993 and was to continue until the earlier of the attainment of a predetermined subscriber level and December 31, 1996. The pre-maturity period ended on November 30, 1996, when the predetermined subscriber level was attained. Additional amounts are provided against such equipment for obsolescence as considered necessary by the Group. Depreciation is provided on a straight-line basis on the cost of other assets at rates determined by the estimated useful lives of the assets of two to 40 years.

**(d) Property, plant and equipment and depreciation (continued)**

The principal annual depreciation rates used for this purpose are as follows:

Network, decoders, cable modems and television production systems	5% to 50%
Furniture, fixtures, other equipment and motor vehicles	10% to 33.33%
Leasehold land	Shorter of 40 years and unexpired term of land leases
Buildings	2.5%
Leasehold improvements	8.33%

The carrying amounts of property, plant and equipment are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying value is reduced to their recoverable amount. Recoverable amount is the amount which the group expects to recover from the future use of the asset, including its residual value on disposal. The amount of the reduction is charged to the profit and loss account.

**(e) Programming library**

Programming library consists of commissioned programming and acquired programming costs in respect of programming licence agreements for rights of presentation.

The costs of acquired programmes are capitalised and amortised over the licence period or over the estimated number of future showings, on an accelerated basis.

Costs of in-house programmes are written off as incurred.

**(f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined by the Group based on the expected replacement cost of the equipment together with provisions for obsolescence.

**(g) Cash and cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance. None of the Group's cash and cash equivalents are restricted as to withdrawal.

**(h) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Income from the provision of subscription television and Internet services is recognised at the time when the services are provided.
- (ii) Installation fees are recognised upon completion of the related installation work to the extent of direct selling costs.
- (iii) Advertising income net of agency deductions is recognised on telecast of the advertisement. When an advertising contract covers a specified period, the related income is recognised evenly over the contracted period.
- (iv) Programming licensing income is recognised on a straight line basis over the contracted licence period or in full upon delivery of the programmes concerned in accordance with the terms of the licence contracts, and is stated net of withholding tax.
- (v) When the outcome of construction contracts relating to the Group's satellite television services business can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of such construction contracts cannot be estimated reliably, revenue is recognised only to the extent that recovery of contract costs is probable.
- (vi) Network leasing arrangements represent capacity sharing or equipment rental and are accounted for as operating leases. Revenues from such arrangements are variable and are recognised in the period earned.
- (vii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (viii) Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

**(i) Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use.

**(j) Deferred taxation**

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

**(k) Operating leases**

Rentals payable and rentals receivable in respect of assets held or provided under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases, where the amount of rentals payable or receivable are fixed. Variable rentals payable and receivable are recognised in the period incurred or earned, respectively.

**(l) Foreign currency translation**

The functional currency of the Group's operations is the Hong Kong dollar.

Foreign currency transactions are translated into Hong Kong dollars at the market rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

**(m) Allowance for doubtful accounts**

An allowance for doubtful accounts is provided upon the evaluation of the recoverability of the receivables at the balance sheet date.

**(n) Construction contracts**

The accounting policy for contract revenue is set out in Note 2(h)(v) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings. Amounts received before the related work is performed are included under current liabilities, and amounts billed but not yet paid by the customer for work performed on a contract are included under current assets.

**(o) Related party transactions**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

**(p) Investments in subsidiaries**

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

**(q) Other investments in securities**

- (i) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (ii) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

### 3. TURNOVER AND OPERATING LOSS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 30 to the accounts.

Turnover comprises principally subscription and installation fees for cable television services and also includes advertising income net of agency deductions, marketing contributions, channel service fees, television relay service income, programming licence income, fibre network and satellite television systems maintenance income, project management service fees, sales of satellite television systems, television magazine sales, late payment charges to subscribers, Internet service income and similar income.

An analysis of turnover and operating loss by operating activity is as follows:

	<u>Turnover</u>		<u>Operating profit / (loss)</u>	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	restated HK\$'000
Operating activities:				
Cable television	1,540,887	1,308,019	73,257	(101,129)
Internet and multimedia	<u>108,514</u>	<u>37,527</u>	<u>(79,947)</u>	<u>(51,332)</u>
	<u>1,649,401</u>	<u>1,345,546</u>	<u>(6,690)</u>	<u>(152,461)</u>

All of the above operating activities jointly utilise certain of the Group's resources. The amount of revenue and expenses for the Internet and multimedia activity represents those directly earned or incurred by that activity.

During the years ended December 31, 2000 and 1999, more than 90% of the Group's operating activities in terms of both turnover and operating loss were carried out in Hong Kong.

### 4. NON-OPERATING EXPENSE

This comprises net loss on disposal of fixed assets.



## 5. PROFIT / (LOSS) BEFORE TAXATION

Profit / (loss) before taxation is stated after charging / (crediting):

	2000 HK\$'000	1999 restated HK\$'000
<b>Interest income</b>		
Interest income from listed investments	(33,926)	-
Interest income from bank deposits	(67,328)	(10,585)
	<u>(101,254)</u>	<u>(10,585)</u>
<b>Finance expense</b>		
Interest expenses on short term advances from immediate holding company	-	91,848
Interest expenses on bank overdrafts repayable within five years	6	8
Interest expenses on convertible bonds, repayable within five years	72,000	7,400
Less: Interest capitalised	-	(9,701)
Net finance expense	<u>72,006</u>	<u>89,555</u>
<b>Other items</b>		
Depreciation	449,294	469,353
Amortisation of programming library*	106,151	96,983
Cost of inventories	18,243	9,414
Rentals payable under operating leases in respect of:		
Land and buildings	40,742	40,913
Plant and machinery	-	117,315
Auditors' remuneration	1,397	2,433
Exchange gain on foreign currency deposits	(2,599)	-
Rentals receivable under operating leases in respect of:		
Land and buildings	(4,459)	(4,739)
Plant and machinery	(6,017)	(208,792)
Capitalisation rate of borrowing costs (per cent)	<u>-</u>	<u>6.1%</u>

\* Amortisation of programming library is included within programming costs in the consolidated results of the Group.

## 5. PROFIT / (LOSS) BEFORE TAXATION (CONTINUED)

Operating expenses (including network rental expense) are analysed by nature in compliance with Statement of Standard Accounting Practice No. 1, "Presentation of Financial Statements" as follows:

	2000 HK\$'000	1999 restated HK\$'000
Depreciation and amortisation (including amortisation of programming library)	555,445	566,336
Staff costs	548,883	525,576
Other operating expenses	551,763	614,887
Total operating costs	<u>1,656,091</u>	<u>1,706,799</u>

## 6. TAXATION

### (a) Taxation in the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Provision for Hong Kong Profits Tax for the year	6,737	4,523
(Over) / under provision in respect of prior years	(1)	363
Deferred tax credit (Note 29(a))	<u>(6,736)</u>	<u>(5,289)</u>
Net taxation credit	<u>-</u>	<u>(403)</u>

The provision for Hong Kong Profits Tax is calculated separately on the taxable profit of each entity within the Group at 16% per annum.

### (b) Taxation in the balance sheet represents:

	Group	
	2000 HK\$'000	1999 HK\$'000
Provision for Hong Kong Profits Tax for the year	6,737	4,523
Provisional Profits Tax paid	<u>(4,522)</u>	<u>(2,117)</u>
	2,215	2,406
Balance of Profits Tax relating to prior years	<u>-</u>	<u>387</u>
	<u>2,215</u>	<u>2,793</u>

## 7. DIRECTORS' EMOLUMENTS

Details of Directors' emoluments are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	128	-
Basic salaries, housing and other allowances, and benefits in kind	3,102	3,070
Retirement scheme contributions	129	127
Discretionary bonuses and / or performance related bonuses	3,577	3,616
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	<u>6,936</u>	<u>6,813</u>

Included in the Directors' emoluments were fees of HK\$48,000 (1999: HK\$ Nil) payable to the independent non-executive Directors.

Except for Directors' fees of HK\$128,000 (1999: HK\$ Nil), all of the Directors' emoluments disclosed above were paid directly by Wharf (or its wholly owned subsidiaries) to the relevant Directors. With effect from November 1, 1999, Wharf (or its wholly owned subsidiaries) commenced to recover such costs from the Group by charging a management fee (see Note 32(v)).

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme and Wharf's share option scheme.

The emoluments of the Directors are within the following bands:

HK\$	2000 Number of directors	1999 Number of directors
Nil - 1,000,000	7	5
4,500,001 - 5,000,000	1	1
	<u>8</u>	<u>6</u>

## 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (1999: one) is a director whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other four (1999: four) individuals are as follows:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing and other allowances, and benefits in kind	8,647	7,800
Retirement scheme contributions	706	700
Discretionary bonuses and / or performance related bonuses	3,219	4,300
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	<u>12,572</u>	<u>12,800</u>

The emoluments of the four (1999: four) individuals with the highest emoluments are within the following bands:

HK\$	2000 Number of individuals	1999 Number of individuals
2,500,001 - 3,000,000	1	1
3,000,001 - 3,500,000	2	2
3,500,001 - 4,000,000	1	1
	<u>4</u>	<u>4</u>

## 9. PROFIT / LOSS ATTRIBUTABLE TO SHAREHOLDERS

The profit / loss attributable to shareholders includes a loss of HK\$2,530,000 (1999: profit of HK\$622,000) which has been dealt with in the accounts of the Company. No dividends have been declared in respect of the current and prior years.

## **10. BASIC AND DILUTED EARNINGS / LOSS PER SHARE**

The calculation of basic earnings / loss per share is based on the net profit of HK\$20,161,000 (1999 restated: net loss of HK\$236,962,000) and the weighted average number of ordinary shares outstanding during the year of 2,014,000,000 (1999: 1,644,926,000). The 1,600,000,000 ordinary shares outstanding as a result of the Reorganisation are included in the calculation of the weighted average number of shares as if those shares were outstanding since January 1, 1999.

The potential issue of ordinary shares in connection with the Company's convertible bonds and the Company's share option scheme would not give rise to a decrease in earnings per share (1999: an increase in loss per share) and therefore had no dilutive effect on the calculation of diluted earnings / loss per share.

## **11. CHANGE IN ACCOUNTING POLICY**

In prior years, certain expenses, including pre-operating expenses, pre-maturity expenses and other items, were deferred according to defined bases and amortised on a straight-line basis over the term of the initial subscription television broadcasting licence which expires on May 31, 2005. With effect from January 1, 2000, the Group adopted an accounting policy of recognising all such costs as an expense in the period they are incurred in order to comply with Interpretation 9 "Accounting for pre-operating costs" issued by the Hong Kong Society of Accountants. The new accounting policy has been adopted retrospectively. In adjusting prior years' figures, the deficit balance of revenue reserve as at January 1, 1999 was restated and increased by HK\$963,004,000, representing write-off to the prior years' consolidated profit and loss account the unamortised balance of deferred expenses as at December 31, 1998.

Upon adoption of Interpretation 9 and restating the prior years' results and reserves, the Group's loss attributable to shareholders for the year ended December 31, 2000 has decreased by HK\$150,281,000 (1999: \$150,281,000) as there was no more amortisation of deferred expenses after the above write-off.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Group						
	Network, decoders, cable modems and television production systems HK\$'000	Furniture, fixtures, other equipment and motor vehicles HK\$'000	Leasehold land and buildings in Hong Kong				Leasehold improvements HK\$'000
		Long lease HK\$'000	Medium lease HK\$'000	Short lease HK\$'000			
<b>Cost</b>							
At January 1, 2000	3,527,573	390,217	3,306	-	70	224,786	4,145,952
Additions	466,181	25,589	-	1,938	-	507	494,215
Disposals	(14,264)	(1,679)	-	-	-	(183)	(16,126)
At December 31, 2000	<u>3,979,490</u>	<u>414,127</u>	<u>3,306</u>	<u>1,938</u>	<u>70</u>	<u>225,110</u>	<u>4,624,041</u>
<b>Accumulated depreciation</b>							
At January 1, 2000	1,693,924	325,649	835	-	70	92,260	2,112,738
Charge for the year	406,556	21,611	77	44	-	21,006	449,294
Written back on disposals	(8,759)	(1,675)	-	-	-	(20)	(10,454)
At December 31, 2000	<u>2,091,721</u>	<u>345,585</u>	<u>912</u>	<u>44</u>	<u>70</u>	<u>113,246</u>	<u>2,551,578</u>
<b>Net book value</b>							
At December 31, 2000	<u>1,887,769</u>	<u>68,542</u>	<u>2,394</u>	<u>1,894</u>	<u>-</u>	<u>111,864</u>	<u>2,072,463</u>
At December 31, 1999	<u>1,833,649</u>	<u>64,568</u>	<u>2,471</u>	<u>-</u>	<u>-</u>	<u>132,526</u>	<u>2,033,214</u>

As at December 31, 2000, the gross carrying amounts of fixed assets of the Group held for use in operating leases were HK\$73,737,325 (1999: HK\$ Nil) and the related accumulated depreciation was HK\$8,941,402 (1999: HK\$ Nil).

### 13. PROGRAMMING LIBRARY

	Group	
	2000	1999
	HK\$'000	HK\$'000
At January 1	222,921	122,476
Programming licences and rights acquired	115,754	197,428
Amortisation	<u>(106,151)</u>	<u>(96,983)</u>
At December 31	<u>232,524</u>	<u>222,921</u>

### 14. NON-CURRENT FINANCIAL ASSETS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted non-trading investments	<u>93,425</u>	<u>38,825</u>

### 15. INVESTMENT IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares at cost	<u>8</u>	<u>4</u>

Particulars of subsidiaries are set out in Note 30.

### 16. AMOUNTS DUE FROM SUBSIDIARIES

Amounts due from subsidiaries are unsecured, interest free except for amounts totaling HK\$1,800,000,000 (1999: HK\$1,800,000,000) which bear interest at 4% per annum, and have no fixed terms of repayment.

## 17. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Spare parts and consumables	50,876	43,911
Less: Provision for obsolescence	<u>(21,356)</u>	<u>(17,977)</u>
	<u>29,520</u>	<u>25,934</u>
Construction work-in-progress		
Cost incurred	-	51
Less: Progress billings	<u>-</u>	<u>-</u>
	<u>-</u>	<u>51</u>
	<u>29,520</u>	<u>25,985</u>

Included in spare parts and consumables are inventories of HK\$29,520,000 (1999: HK\$25,934,000) stated net of provision made in order to state these inventories at the lower of their cost and estimated net realisable value.

## 18. ACCOUNTS RECEIVABLE FROM TRADE DEBTORS

An ageing analysis of accounts receivable from trade debtors (net of allowance for doubtful accounts) is set out as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 to 30 days	67,469	60,018
31 to 60 days	14,465	11,152
61 to 90 days	7,116	5,731
Over 90 days	<u>4,236</u>	<u>3,730</u>
	<u>93,286</u>	<u>80,631</u>

The Group has a defined credit policy. The general credit terms allowed range from 0 to 30 days.

## 19. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Amounts due from fellow subsidiaries are unsecured, interest free and repayable on demand.

## 20. BANK OVERDRAFTS

Bank overdrafts were repayable on demand and were used for working capital purposes, bearing interest at rates of 9.5% and 8.5% per annum at December 31, 2000 and 1999 respectively.



## 21. AMOUNTS DUE TO TRADE CREDITORS

An ageing analysis of amounts due to trade creditors is set out as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
0 to 30 days	12,797	11,652
31 to 60 days	19,468	20,760
61 to 90 days	5,589	6,265
Over 90 days	4,262	17,410
	<u>42,116</u>	<u>56,087</u>

## 22. AMOUNTS DUE TO FELLOW SUBSIDIARIES

Amounts due to fellow subsidiaries are unsecured, interest free, and repayable on demand.

## 23. AMOUNTS DUE TO SUBSIDIARIES

Amounts due to subsidiaries are unsecured, interest free, and have no fixed terms of repayment.

## 24. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is unsecured, interest free, and has no fixed term of repayment.

## 25. CURRENT ASSETS AND CURRENT LIABILITIES

Included under current assets and current liabilities are amounts which are expected to be recovered / settled after more than one year as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Inventories	10,924	8,220	-	-
Accounts receivable from trade debtors	2,548	2,548	-	-
Prepayments and other receivables	2	4,366	-	-
Deposits	6,277	2,023	-	-
Amounts due from fellow subsidiaries	8,511	-	-	-
Accrued expenses and other payables	(34,902)	(61,875)	-	-
Receipts in advance and customers' deposits	(93,763)	(93,850)	-	-
Amounts due to subsidiaries	-	-	(4)	(4)

## 26. SHARE CAPITAL

	2000 HK\$'000	1999 HK\$'000
Authorised		
8,000 million ordinary shares of HK\$1 each	<u>8,000,000</u>	<u>8,000,000</u>
Issued and fully paid		
2,014 million ordinary shares of HK\$1 each	<u>2,014,000</u>	<u>2,014,000</u>

Pursuant to the Company's share option scheme, options to purchase ordinary shares of the Company were granted during the year to eligible employees at an exercise price of HK\$10.49 per share. The options are exercisable during the period between April 1, 2001 to December 1, 2009 in accordance with the terms of the grant. At December 31, 2000, there were outstanding options in respect of a total of 19,520,000 (1999: None) ordinary shares of the Company.

## 27. RESERVES

	Group		Company	
	Year ended December 31, 2000 HK\$'000	Year ended December 31, 1999 HK\$'000	Year ended December 31, 2000 HK\$'000	Period from May 21, 1999 (date of incor- poration) to December 31, 1999 HK\$'000
<b>(a) Revenue reserve</b>				
At beginning of year / period				
As previously reported	(4,757,381)	(4,370,138)	622	-
Prior period adjustment (Note 11)	(812,723)	(963,004)	-	-
As restated	(5,570,104)	(5,333,142)	622	-
Transfer from profit and loss account (1999: consolidated results as restated)	20,161	(236,962)	(2,530)	622
At end of year / period	(5,549,943)	(5,570,104)	(1,908)	622
<b>(b) Share premium</b>				
At beginning of year / period	4,826,326	-	4,826,326	-
Share premium arising on issue of shares	-	5,042,065	-	5,042,065
Less: Listing expenses	-	(215,739)	-	(215,739)
At end of year / period	4,826,326	4,826,326	4,826,326	4,826,326
Total reserves	(723,617)	(743,778)	4,824,418	4,826,948

The Company did not have any reserves available for distribution to shareholders at December 31, 2000 (1999: reserves available for distribution to shareholders amounted to HK\$622,000).

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

## 28. INTEREST-BEARING BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Convertible bonds	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>

These comprise convertible bonds of principal value HK\$1,800 million held by the Wharf group. The bonds are convertible to shares at a price of HK\$11.95 per share, which would result in the issue of approximately 151 million shares upon full conversion, which would rank pari passu and carry the same rights and privileges in all respects as other shares of the Company.

The term of the bonds is four years from November 24, 1999, the date on which the Company's shares commenced trading on The Stock Exchange of Hong Kong Limited. Interest is payable at the rate of 4% per annum, payable semi-annually in arrears.

The holders of the bonds may require the Company to convert part or all of the bonds at any time during the 4-year term of the bonds, subject to certain conditions. The Company may repurchase bonds at any time at any price by agreement with the bondholder.

Unless previously repurchased, cancelled, redeemed or converted, the bonds will be redeemed at their principal amount on maturity.

## 29. DEFERRED TAXATION

### (a) Movements on deferred taxation comprise:

	Group	
	2000 HK\$'000	1999 HK\$'000
At January 1	166,180	171,469
Transfer to the profit and loss account (Note 6(a))	<u>(6,736)</u>	<u>(5,289)</u>
At December 31	<u>159,444</u>	<u>166,180</u>

Major components of provided deferred taxation represent tax depreciation allowances in excess of the related accounting depreciation.

**29. DEFERRED TAXATION (CONTINUED)**

**(b) The major components of the net deferred tax asset not provided for are as follows:**

	<u>Group</u>	
	2000	1999
	HK\$'000	restated HK\$'000
Future benefit of tax losses	1,063,828	1,031,967
Programming library	(37,204)	(35,667)
Tax depreciation allowances in excess of related accounting depreciation	(84,901)	(79,341)
Provision for obsolete inventories	32	32
	<u>941,755</u>	<u>916,991</u>

### 30. PARTICULARS OF SUBSIDIARIES

The subsidiaries of the Company at December 31, 2000 were as follows:

Name of company	Place of incorporation / operation	Principal activities	Particulars of issued capital, all fully paid	Percentage of ordinary shares held	
				Directly	Indirectly
Cable Network Communications Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	100	-
			2 non-voting deferred shares of HK\$1 each	-	-
Hong Kong Cable Television Limited	Hong Kong	Provision of cable television services	1,000,000,000 ordinary shares of HK\$1 each	-	100
i-CABLE WebServe Limited (formerly Wharf Interactive Network Limited)	Hong Kong	Internet related services	2 ordinary shares of HK\$1 each	-	100
i-CABLE Network Limited (formerly Wharf Communications Network Limited)	Hong Kong	Network leasing and provision of network operation and maintenance services	100 ordinary shares of HK\$1 each	-	100
			2 non-voting deferred shares of HK\$1 each	-	-

**30. PARTICULARS OF SUBSIDIARIES (CONTINUED)**

Name of company	Place of incorporation / operation	Principal activities	Particulars of issued capital, all fully paid	Percentage of ordinary shares held	
				Directly	Indirectly
Rediffusion Satellite Services Limited	Hong Kong	Installation and maintenance of satellite television systems	1,000 ordinary shares of HK\$10 each	-	100
Rediffusion (Hong Kong) Limited	Hong Kong	Provision of television cable rental services	100 ordinary shares of GBP0.50 each	-	100
			40,000 non-voting deferred shares of GBP0.50 each	-	-
Rediffusion Engineering Limited	Hong Kong	Systems installation, operation and maintenance	100 ordinary shares of HK\$1 each	-	100
			2 non-voting deferred shares of HK\$1 each	-	-
New Television and Film International Limited	Hong Kong	International program licensing	2 ordinary shares of HK\$10 each	-	100
Global Media In Force Limited	Hong Kong	Resale of advertising airtime and programme licensing	2 ordinary shares of HK\$1 each	-	100

**30. PARTICULARS OF SUBSIDIARIES (CONTINUED)**

Name of company	Place of incorporation / operation	Principal activities	Particulars of issued capital, all fully paid	Percentage of ordinary shares held	
				Directly	Indirectly
i-CABLE Cineplex Limited (formerly Wharf Cable Cineplex Limited)	Hong Kong	Inactive	10,000,000 ordinary shares of HK\$1 each	-	100
Moscan Assets Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	-	100
Riddlewood Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	-	100
Kreuger Assets Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	-	100
Maspon Company Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	-	100
			2 non-voting deferred shares of HK\$1 each	-	-
Centralised Assets Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	-	100
i-CABLE Ventures Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	100	-



**30. PARTICULARS OF SUBSIDIARIES (CONTINUED)**

Name of company	Place of incorporation / operation	Principal activities	Particulars of issued capital, all fully paid	Percentage of ordinary shares held	
				Directly	Indirectly
Gold Boat Assets Limited	Hong Kong	Inactive	2 ordinary shares of HK\$1 each	-	100
i-CABLE China Limited	British Virgin Islands	Inactive	500 ordinary shares of US\$1 each	100	-

Details of partnerships held indirectly through subsidiaries at December 31, 2000 were as follows:

Name of partnership	Law under which incorporated	Principal activities	Percentage of interest
The Cable Leasing Partnership	Hong Kong	Leasing	100
The Network Leasing Partnership	Hong Kong	Leasing	100

### 31. COMMITMENTS AND CONTINGENCIES

#### (a) Operating leases

At December 31, 2000, operating lease commitments, in respect of land and buildings, to make payments within the next year were as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Leases expiring:				
Within one year	2,271	2,133	-	-
After one year but within five years	29,536	1,677	-	-
After five years	6,487	31,175	-	-
	<u>38,294</u>	<u>34,985</u>	<u>-</u>	<u>-</u>

#### (b) Capital commitments

Capital commitments outstanding as of December 31, 2000, in respect of plant, equipment and programming rights, not provided for in the accounts were as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Authorised and contracted for	<u>61,982</u>	<u>17,386</u>	<u>-</u>	<u>-</u>
Authorised but not contracted for	<u>27,870</u>	<u>11,166</u>	<u>-</u>	<u>-</u>

#### (c) Contingent liabilities

As of December 31, 2000, there were contingent liabilities in respect of the following:

- (i) Performance bond amounting to HK\$25 million (1999: Nil) given to the Telecommunications Authority of Hong Kong as required under the Fixed Telecommunications Network Services licence.
- (ii) The Company has undertaken to provide financial support to certain of its subsidiaries in order to enable them to continue to operate as going concerns.

## 31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### (c) Contingent liabilities (continued)

- (iii) Guarantees, indemnities and letters of awareness to banks totaling \$77.8 million (1999: HK\$53.1 million) in respect of overdraft facilities and guarantees given by those banks in respect of programming acquisitions, customs duties and other charges relating to subsidiaries. Of this amount, at December 31, 2000, HK\$36.7 million (1999: HK\$47.8 million) was utilised by the subsidiaries.
- (iv) Claims for unspecified damages for alleged breach of contract have been brought by UnitedGlobalCom Inc. (formerly United International Holdings Inc.) against Wharf, Wharf Communications, and Stephen Ng, a Director of Wharf and the Company's Chief Executive Officer, based on an alleged option to invest in the Group's cable television business. During 1997, a jury's verdict was given in the United States District Court of Denver and the jury awarded in favour of UnitedGlobalCom Inc. approximately US\$153.5 million including damages, costs and interest. A judgement for the award has been entered into. An appeal was then filed and in May 2000, the Court of Appeals in Denver rendered a verdict affirming the award. In September 2000, an appeal by way of a Petition for Writ of Certiorari was filed in the United States Supreme Court and certiorari to review two of the questions presented was granted in November 2000. The United States Supreme Court heard argument on March 21, 2001 and a decision is expected not later than June 2001. The management of Wharf believes that the Colorado judgement is inconsistent with applicable law and intends to defend its position through all legal avenues available to it. Wharf has posted bonds totaling US\$194 million to provide for payment of any final judgement. In addition, Wharf Communications has indemnified the Group against losses which might arise to the Group in connection with the case. Such indemnification will last for a period of 6 years from the date the Company's shares commenced trading on the Hong Kong Stock Exchange (November 24, 1999).

As the Company is part of the Wharf Group, strategic decisions made by Wharf in the interest of its shareholders in dealing with this litigation could ultimately have an impact on the Group's business. No provision has been made as none of the companies within the Group is a party to such litigation and the directors believe that loss to the Group is not probable.

Additionally, the Group is the subject of various other pending lawsuits. The Group intends to vigorously contest the liability in all such matters brought against the Group. While no assurance can be given as to the ultimate outcome of such lawsuits, management believes the litigation will not have a material adverse effect on the results of operations or financial position of the Group.

## 32. RELATED PARTY TRANSACTIONS

The following transactions represent material and significant related party transactions and “Connected Transactions” under the terms of letters issued by the Stock Exchange of Hong Kong Limited to the Company, during the year between the Group and related parties as identified by management.

	2000 HK\$'000	1999 HK\$'000
Interest expenses on convertible bonds held by the Wharf group (Note (i))	72,000	7,400
Rentals payable and related management fees on land and buildings (Note (ii))	38,954	39,644
Rentals receivable on land and buildings (Note (iii))	(1,972)	(2,035)
Network repairs and maintenance services charge (Note (iv))	(14,243)	(3,185)
Management fees (Note (v))	11,991	2,600
Computer services (Note (vi))	10,751	14,741
Leased line and Public Non-Exclusive Telecommunications Service (“PNETS”) charges (Note (vii))	7,364	6,392
Project management fees (Note (viii))	(10,188)	(605)
Advertising income (Note (ix))	(1,196)	(1,845)
Advertising expenses (Note (x))	882	315
Video link service fees (Note (xi))	1,847	120
Fibre network lease rental income (Note (xii))	-	(208,792)
Fibre network lease rental expenses (Note (xiii))	-	117,315
Interest expenses on loans from immediate holding company (Note (xiv))	-	91,848
Overhead costs recharged (Note (xv))	-	(11,930)
Network maintenance expense (Note (xvi))	163	48

Notes:

- (i) This represents interest expenses on convertible bonds held by the Wharf group.
- (ii) These represent rentals and related management fees paid to fellow subsidiaries in respect of office premises, car parks, warehouses, district centres, retail shops and hub sites. As at December 31, 2000, related rental deposits amounted to HK\$8,473,474 (1999: HK\$ Nil).

## 32. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (iii) This represents rental received from a fellow subsidiary in respect of office premises.
- (iv) This represents service charges to a fellow subsidiary in relation to the operation, repair and maintenance of ducts, cables and ancillary equipment.
- (v) This represents costs incurred by a fellow subsidiary on the Group's behalf which were recharged to the Group.
- (vi) This represents service charges paid to a fellow subsidiary for computer system maintenance and consulting services provided.
- (vii) This represents service fees paid to a fellow subsidiary in respect of leasing of datalines and PNETS charges incurred.
- (viii) This represents fees received from a fellow subsidiary for the provision of project management services.
- (ix) This represents income received from fellow subsidiaries for air-time advertising on cable television.
- (x) These represent charges paid to fellow subsidiaries for advertising and marketing activities to promote services provided by the Group.
- (xi) This represents service fees paid to a fellow subsidiary for carrying video and audio signals between the Group's headend building and remote locations.
- (xii) This represents income received from the lease of part of the Group's fibre network to a fellow subsidiary. The income ceased to be received upon transfer of fixed assets to the fellow subsidiary mentioned in Note (xvii) below.
- (xiii) These represent lease charges on the fibre network subleased back by the Group from the fellow subsidiary mentioned in Note (xii) above. The expense ceased to be incurred upon transfer of fixed assets to the fellow subsidiary mentioned in Note (xvii) below.
- (xiv) This represents interest incurred on loans provided by the immediate holding company.

### **32. RELATED PARTY TRANSACTIONS (CONTINUED)**

- (xv) These represent overhead costs recharged to a fellow subsidiary for network operation and maintenance work performed on its behalf.
- (xvi) These represent charges paid to a fellow subsidiary for network maintenance.
- (xvii) On September 30, 1999, the Group sold fixed assets with a net book value of HK\$646 million to a fellow subsidiary which was settled by offsetting an equivalent amount due by the Group to the immediate holding company.

At December 31, 1999, the ultimate holding company had issued guarantees, counter indemnities and letters of awareness totaling HK\$11,315,000 in respect of bank overdraft facilities and liabilities to third parties of the Group of which HK\$8,000,000 was utilised. The Group was not charged for these guarantees. No such guarantees were outstanding at December 31, 2000.

The immediate holding company has issued deeds of indemnity in respect of certain litigation, taxation and costs arising in respect of the period prior to the Reorganisation. The Group is not charged for these indemnities.

### **33. ULTIMATE HOLDING COMPANY**

The directors consider the ultimate holding company at December 31, 2000 to be The Wharf (Holdings) Limited, which is incorporated in Hong Kong.

### **34. APPROVAL OF ACCOUNTS**

The accounts were approved by the directors on March 22, 2001.