

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties, leasehold land and buildings and other investments.

(b) Basis of consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any goodwill or capital reserve which was not previously charged to or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

1 Principal accounting policies *(continued)***(d) Joint ventures**

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the group's share of the net assets of the jointly controlled entities.

(e) Investments in securities**(i) Investment securities**

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities are reduced to their fair values. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gain or loss arising from the change in fair value of other investments is recognised in the profit and loss account. Profit or loss on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and are held for their long-term investment potential, any rental income being negotiated at arm's length. Investment properties are stated at annual professional valuation at the balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

1 Principal accounting policies *(continued)*

(f) Investment properties *(continued)*

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(g) Properties under development

Properties under development are investments in land and buildings where their construction work have not been completed. The investments are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development. On completion, the properties will be transferred to leasehold land and buildings.

No depreciation is provided on land and properties under development.

(h) Property, plant and equipment

Leasehold land and buildings are stated at valuation at the balance sheet date.

It is a group policy to review regularly the fair value of fixed assets on an individual basis. If it is considered appropriate, independent professional valuations are obtained. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained profits and is shown as a movement in reserves.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2%
Leasehold improvements	10%
Furniture, fixtures and equipment	20% to 25%
Plant and machinery	20% to 25%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

1 Principal accounting policies *(continued)*

(h) Property, plant and equipment *(continued)*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(i) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the group all the rewards and risks of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased asset or present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(j) Film and sub-licensing rights

(i) *Film rights*

Film rights generated by the group or perpetual rights acquired by the group are stated at cost less provision and amortisation. Costs less provision represents the carrying value transferred from films in progress upon completion or the purchase price of the perpetual film rights, and are amortised at rates calculated to write off the costs in proportion to the expected revenues from exhibition, the reproduction and distribution of audio-visual products, the licensing of video rights and other broadcast rights following their release. Such rates are subject to annual review by the directors.

1 Principal accounting policies *(continued)*

(j) Film and sub-licensing rights *(continued)*

(ii) Films in progress

Films in progress are stated at cost less provision. Costs includes all direct costs associated with the production of films. Provisions are made for costs which are in excess of the expected future revenue generated by these films. The balance of film production costs payable at year end are disclosed as commitments. Cost of films are transferred to film rights upon completion.

(iii) Film sub-licensing rights and deposits

Licence fees paid in advance and by instalments during the production of films under licensing agreements for the reproduction and distribution of audio-visual products and sub-licensing of film titles, in specified geographical areas and time periods, are accounted for as film sub-licensing rights and deposits. The balance payable under the licensing agreements is disclosed as a commitment. Upon the release of the pre-recorded audio visual products and the materials, the relevant portion of licence fees of purchased film titles are charged to the profit and loss account on a systematic basis, with reference to the projected revenue and the underlying licence periods. Provision is made against film sub-licensing rights and deposits to the extent that they are not expected to generate any future revenue for the group.

In the case where the group is unable to exercise its rights under a licensing agreement because the film producer fails to complete the film, the group writes off the difference between the advances made and the estimated recoverable amount from the film producer.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

1 Principal accounting policies *(continued)***(n) Retirement benefit costs**

The group's contributions to the defined contribution retirement scheme and the mandatory provident fund scheme are expensed as incurred. The group's contribution to the defined contribution retirement scheme and the group's voluntary contribution to the mandatory provident fund scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the group in an independently administered fund.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

The accounts of associated companies and a jointly controlled entity expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(p) Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Income from the licensing and sub-licensing of audio visual products, video features and TV rights is recognised upon delivery of the pre-recorded audio visual products and the materials for video features including the master tapes to the customers.
- (iii) Film exhibition income is recognised when the right to receive payment is established.
- (iv) Internet and related service fee income is recognised when the relevant services are rendered.
- (v) Rental income is recognised on an accrual basis.
- (vi) Dividend income is recognised when the right to receive payment is established.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2 Revenues and turnover

The group is principally engaged in the processing and distributions of films and programs, film exhibition, film rights sub-licensing and provision of internet and related services. Revenues recognised during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover		
Distribution of films and programs in audio visual product formats	161,985	144,739
Film exhibition and film rights sub-licensing	40,244	42,997
Provision of internet and related services	2,672	3,273
Others	847	1,484
	<u>205,748</u>	<u>192,493</u>
Other revenues		
Rental income from investment properties	995	968
Rental income from land and buildings and sub-letting of properties and plant and machinery	13,996	7,443
Interest income	4,512	6,209
Dividend income from unlisted investments	—	500
	<u>19,503</u>	<u>15,120</u>
Total revenues	<u><u>225,251</u></u>	<u><u>207,613</u></u>

An analysis of the group's turnover and contribution to operating profit for the year by each principal activity and market is as follows:

	Turnover		Operating profit	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Distribution of films and programs in audio visual product formats	161,985	144,739	12,472	33,037
Film exhibition and film rights sub-licensing	40,244	42,997	(7,210)	(4,073)
Provision of internet and related services	2,672	3,273	(162)	1,173
Others	847	1,484	10,824	976
	<u>205,748</u>	<u>192,493</u>	<u>15,924</u>	<u>31,113</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the group are attributable to markets outside Hong Kong.

3 Operating profit

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The operating profit is stated after crediting and charging the following:		
Crediting		
Gains on dilution of interests in associated companies, net of premium on acquisition of additional interests in the associated companies prior to the dilution <i>(note 30 (a) and (b))</i>	<u>16,193</u>	<u>—</u>
Charging		
Depreciation:		
— owned fixed assets	15,578	8,434
— leased fixed assets	151	1,224
Auditors' remuneration	842	720
Operating lease rentals in respect of land and buildings	3,019	2,548
Outgoings in respect of investment properties	23	21
Amortisation of film rights	32,965	26,990
Unrealised loss on other investments	63	—
Provision for irrecoverable accounts receivable, films and other deposits	8,431	5,500
Provision for obsolete inventories	450	—
Deficit arising on revaluation of land and buildings not covered by previous revaluation surplus	1,390	2,349
Staff costs	<u>24,805</u>	<u>18,251</u>

4 Finance costs

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts	3,892	3,502
Interest on loan from an associated company	82	—
Interest element of finance leases	29	5
	<u>4,003</u>	<u>3,507</u>

5 Taxation

No provision for Hong Kong and overseas profits tax has been made for as there are sufficient tax losses carried forward at the balance sheet date.

The group's jointly controlled entity in the People's Republic of China (the "PRC") did not have any assessable income for the year for the PRC tax purposes and accordingly no provision for the PRC taxation has been made in the accounts.

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of taxation attributable to:		
Associated company	<u>1,233</u>	<u>—</u>
	<u>1,233</u>	<u>—</u>

No provision for net potential deferred tax assets amounting to HK\$9,291,000 (2000: HK\$13,566,000) has been made in the accounts as it is uncertain that such assets will crystallise in the foreseeable future. At 31st March 2001, the group had potential deferred tax assets in respect of tax losses amounting to HK\$16,937,000 (2000: HK\$16,056,000) and deferred tax liabilities in respect of accelerated depreciation allowances amounting to HK\$7,646,000 (2000: HK\$2,490,000).

6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of a loss of HK\$172,000 (2000: HK\$21,000).

7 Earnings per share

The calculation of basic earnings per share is based on the group's profit attributable to shareholders of HK\$1,198,000 (2000: HK\$18,095,000) and on 771,124,200 (2000: 679,699,644) shares in issue taking into account the effect of the bonus issue on 13th October 2000. The earnings per share for 2000 has been adjusted accordingly.

The outstanding share options as at 31st March 2001 have not been included in the calculation of the diluted earnings per share as the exercise of these share options would have an anti-dilutive effect.

8 Directors' and senior management's emoluments

- (a) The aggregate amounts of emoluments payable to directors of the company during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	250	130
Other emoluments		
— basic salaries, allowances and other benefits in kind	3,943	3,943
Discretionary bonuses	—	—
Pension contribution	191	191
	<u>4,384</u>	<u>4,264</u>

Directors' fees are paid to independent non-executive directors.

The company also granted, under the share option scheme (the "Share Option Scheme") approved by the shareholders of the company on 24th September 1993, options (the "Share Options") to all executive directors on 28th January 2000 to acquire in aggregate 14,000,000 shares in the company at an exercise price of HK\$3.38 per share. The Share Options are exercisable at any time during the period from 19th August 2000 to 18th August 2002.

As a result of the bonus issue of the company during the year, the exercise price of the outstanding Share Options of the company was adjusted to HK\$1.1267 per share and the total number of outstanding share options was also adjusted to 42,000,000. No such Share Options were exercised during the year.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2001	2000
HK\$ Nil - HK\$1,000,000	4	4
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$2,000,001 - HK\$2,500,000	1	1
	<u>6</u>	<u>6</u>

No directors have waived any of their emoluments in respect of the years ended 31st March 2001 and 2000.

8 Directors' and senior management's emoluments *(continued)*

- (b) The five individuals whose emoluments were the highest in the group for the year include two (2000: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2000: three) individuals during the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	2,319	2,251
Pension contributions	91	82
	<u>2,410</u>	<u>2,333</u>

The emoluments fell within the following bands:

	Number of individuals	
	2001	2000
HK\$ Nil - HK\$1,000,000	2	3
HK\$1,000,001 - HK\$1,500,000	1	—
	<u>3</u>	<u>3</u>

9 Retirement benefit costs

The group contributes to a defined contribution retirement scheme which provides retirement benefits to its employees. The scheme's assets are held under a provident fund managed by an independent administrator. Under the scheme, both the employer and employees are required to contribute 5% of the basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 20% to 90% after completion of 2 to 9 years' service. The forfeited contributions and the related accrued interest are to be used to reduce the employer's contribution.

The aggregate employer's contribution, net of forfeited contributions and their accrued interest, which have been dealt with in the consolidated profit and loss account for the relevant years amounted to:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Gross employer's contributions	702	678
Less: Forfeited contribution and their accrued interest utilised to offset employer's contribution for the year	<u>(55)</u>	<u>(189)</u>
Net employer's contributions charged to profit and loss account	<u>647</u>	<u>489</u>

As at 31st March 2001, forfeited contributions available to the group to reduce its contributions to the pension scheme in future years were not material.

With effect from 1st December 2000, the group also provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance. In addition to the mandatory contribution, the group, in respect of those employees who joined the group on or before 30th November 2000 or who have been employed by the group for more than 3 years, make a voluntary contribution, the amount of which is equal to 5% of the employee's basic salary less the amount of mandatory contribution which the employer has made for that employee. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions. The accrued benefits of an employee which are derived from the group's mandatory and voluntary contributions under the MPF scheme can be used to offset any long service payments or severance payments payable to that employee. The total contribution to the MPF Scheme paid by the group for the year ended 31st March 2001 amounted to HK\$235,000.

NOTES TO THE ACCOUNTS

10 Fixed assets

	Group							Total
	Investment	Properties	Leasehold	Furniture,			Motor	
	properties	under	land and	Leasehold	and	Plant and		
	HK\$'000	development	buildings	improvements	equipment	machinery	HK\$'000	
Cost or valuation:								
At 1st April 2000	19,250	33,694	31,500	4,677	4,894	81,353	3,652	179,020
Adjustment on revaluation	(350)	—	(4,550)	—	—	—	—	(4,900)
Additions, at cost	—	55,455	—	—	489	254	1,200	57,398
Transfers	2,254	—	(2,254)	—	—	—	—	—
Disposals	—	—	—	—	(18)	—	—	(18)
At 31st March 2001	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>4,677</u>	<u>5,365</u>	<u>81,607</u>	<u>4,852</u>	<u>231,500</u>
At cost	—	89,149	—	4,677	5,365	81,607	4,852	185,650
At 2001 professional valuation	<u>21,154</u>	<u>—</u>	<u>24,696</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>45,850</u>
	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>4,677</u>	<u>5,365</u>	<u>81,607</u>	<u>4,852</u>	<u>231,500</u>
Accumulated depreciation								
At 1st April 2000	—	—	—	2,350	3,039	26,911	3,052	35,352
Charge for the year	—	—	660	470	540	13,688	371	15,729
Adjustment on revaluation	—	—	(660)	—	—	—	—	(660)
Disposals	—	—	—	—	(2)	—	—	(2)
At 31st March 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,820</u>	<u>3,577</u>	<u>40,599</u>	<u>3,423</u>	<u>50,419</u>
Net book value								
As at 31st March 2001	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>1,857</u>	<u>1,788</u>	<u>41,008</u>	<u>1,429</u>	<u>181,081</u>
As at 31st March 2000	<u>19,250</u>	<u>33,694</u>	<u>31,500</u>	<u>2,327</u>	<u>1,855</u>	<u>54,442</u>	<u>600</u>	<u>143,668</u>

10 Fixed assets *(continued)*

- (a) Except for certain leasehold land and buildings situated in the PRC amounting to HK\$12,500,000 (2000: HK\$15,000,000) which is held under long lease, all investment properties, properties under development and leasehold land and buildings are situated in Hong Kong and held under medium-term leases.
- (b) At 31st March 2001, certain properties and plant and machinery with net book values of HK\$41,870,000 (2000: HK\$32,167,000) and HK\$14,439,000 (2000: HK\$19,252,000) respectively, were pledged as security for banking facilities granted to the group (note 26).
- (c) All investment properties and leasehold land and buildings were revalued by Memfus Wong Surveyors Limited, an independent professional valuer in Hong Kong, on an open market value basis as at 31st March 2001.
- (d) The carrying amount of leasehold land and buildings would have been HK\$37,371,000 (2000: HK\$40,035,000) had they been stated at cost less accumulated depreciation.
- (e) At 31st March 2001, the net book value of assets held by the group under finance leases amounted to HK\$1,181,858 (2000: HK\$76,000).
- (f) The revaluation of investment properties and certain leasehold land and buildings of the group does not constitute a timing differences for taxation purposes because management of the group intends to operate these properties on a long-term basis.

11 Subsidiaries

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost <i>(note (a))</i>	46,010	46,010
Amounts due from subsidiaries <i>(note (b))</i>	459,550	418,990
Amounts due to subsidiaries <i>(note (b))</i>	(35,835)	(35,767)
	<u>469,725</u>	<u>429,233</u>

- (a) Details of subsidiaries are set out in note 29 to the accounts.
- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

12 Interest in a jointly controlled entity

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net liabilities (<i>note (a)</i>)	(13,667)	(11,741)
Amount due from a jointly controlled entity (<i>note (b)</i>)	<u>16,187</u>	<u>16,156</u>
	<u><u>2,520</u></u>	<u><u>4,415</u></u>

- (a) This represents the group's 70% interest in Guang Dong Tung Ah Audio Video Production Company Limited. The group's control over the joint venture company is restricted by a provision in the joint venture agreement that requires unanimous approval by all directors present for certain major decisions, notwithstanding the group having a majority equity interest and the ability to appoint the majority of directors. Accordingly, in the opinion of the directors, the group does not have unilateral control over the joint venture company and the equity method is used to account for its investment therein.

Particulars of the jointly controlled entity are as follows:

Name	Place of registration/ operation	Principal activities	Attributable equity interest
Guang Dong Tung Ah Audio Video Production Company Limited	PRC	Processing and distribution of audio visual products	70%

The group's share of post-acquisition accumulated losses of the jointly controlled entity at 31st March 2001 was HK\$14,752,000 (2000: HK\$12,826,000).

- (b) The amount due from the jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

13 Associated companies

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	31,030	5,406	—	—
Amounts due from associated companies (<i>note (b)</i>)	54,366	52,434	—	40,519
Amounts due to associated companies (<i>note (b)</i>)	(172)	—	(2)	—
Provision for amount due from an associated company	(5,793)	(5,793)	—	—
Loan from an associated company (<i>note (c)</i>)	(2,500)	—	—	—
	<u>76,931</u>	<u>52,047</u>	<u>(2)</u>	<u>40,519</u>
Investment at cost:				
Listed shares in Hong Kong	3,682	—	—	—
Unlisted shares	30,037	15,535	—	—
	<u>33,719</u>	<u>15,535</u>	<u>—</u>	<u>—</u>
Market value of listed shares	<u>31,992</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (a) Details of associated companies are set out in note 30 to the accounts.
- (b) The amounts due from/(to) associated companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date, except for an amount of HK\$8,955,000 (2000: HK\$33,319,000) due from associated companies which is interest-bearing at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum.

An interest-free shareholder's loan amounting to HK\$4,500,000 advanced to China10K.com (BVI) Limited, an associated company, was capitalised and applied in paying up in full 576,900 shares of US\$1 each in that company in May 2000.

The interest-free loans amounting to HK\$3,682,000 advanced to M21 Investment Limited, a subsidiary of an associated company of the group, was capitalised and applied in paying up in full 45 shares of US\$1 each in March 2001.

- (c) The balance due is unsecured, interest bearing at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum and repayable on demand.
- (d) The group's share of the post-acquisition accumulated losses of the associated companies at 31st March 2001 was HK\$22,342,000 (2000: HK\$6,381,000).

14 Investments in securities

	Group	
	2001 HK\$'000	2000 HK\$'000
Investment securities:		
Unlisted equity securities, at cost	9,689	9,589
Provision for diminution in value	<u>(1,500)</u>	<u>(1,500)</u>
	8,189	8,089
Loans to investee companies	<u>—</u>	<u>2,021</u>
	<u>8,189</u>	<u>10,110</u>
Other investments:		
Equity securities listed in Hong Kong, at market value (note (a))	<u>20</u>	<u>—</u>

- (a) These represent 41,400 shares of the company which were purchased by the company's wholly owned subsidiary — Mei Ah Investment Company Limited during the year. As at 31st March 2001, such shares are in the process of cancellation.

15 Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Blank tapes	370	502
Films and programs in audio visual product formats	17,488	20,383
Less: general provision	<u>(4,865)</u>	<u>(4,415)</u>
	<u>12,993</u>	<u>16,470</u>

16 Film sub-licensing rights and deposits

As at 31st March 2001, film sub-licensing rights and deposits with an aggregate net book value of HK\$11,886,000 (2000: HK\$15,698,000) are not expected to be realised within the next twelve months from the balance sheet date.

17 Accounts receivable

The ageing analysis of accounts receivable is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current to 3 months	18,381	12,500
4 to 6 months	516	736
Over 6 months	1,890	4,158
	<u>20,787</u>	<u>17,394</u>

The sales of films and programs in audio visual product formats are with credit terms of 7 to 30 days. The turnover from film exhibition, film rights sub-licensing and the provision of internet and information technology and related services are on open account term. Certain balances are covered by customers' deposits placed with the group.

18 Accounts payable

The ageing analysis of accounts payable is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current to 3 months	3,492	3,456
4 to 6 months	2,141	4,542
Over 6 months	2,785	1,879
	<u>8,418</u>	<u>9,877</u>

19 Share capital

	Authorised Shares of HK\$0.1 each	
	No. of shares (Thousands)	HK\$'000
At 31st March 2000 and 31st March 2001	<u>3,000,000</u>	<u>300,000</u>
	Issued and fully paid Shares of HK\$0.1 each	
	No. of shares (Thousands)	HK\$'000
At 31st March 2000	257,042	25,704
Issue of shares (note (a))	<u>514,083</u>	<u>51,408</u>
At 31st March 2001	<u>771,125</u>	<u>77,112</u>

- (a) On 13th October 2000, the issued share capital of the company was increased to HK\$77,112,000 by applying HK\$51,408,000 standing to the credit of the share premium account in payment in full at par of 514,083,000 ordinary shares of HK\$0.1 each on the basis of two new ordinary shares for one share held on 28th September 2000. These shares rank pari passu in all respects with the existing issued shares.

20 Share options

Pursuant to the Share Option Scheme of the company, on 28th January 2000, the company granted 20,000,000 Share Options to certain employees including executive directors of the company. The holders of the Share Options are entitled to subscribe for shares of HK\$0.1 each in the company.

As a result of the bonus issue of shares during the year (note 19(a)), the exercise price of the outstanding share options of the company granted on 28th January 2000 was adjusted from HK\$3.38 to HK\$1.1267 per share and the total number of outstanding share options increased from 20,000,000 to 60,000,000. The options are exercisable at any time during the period from 19th August 2000 to 18th August 2002. As at 31st March 2001, all the Share Options remained outstanding.

21 Reserves

	Group						Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange difference HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Accumulated losses HK\$'000	
At 1st April 1999	146,334	128,545	(306)	5,541	—	(66,183)	213,931
Share premium on issue of shares, net of issuing expenses	127,969	—	—	—	—	—	127,969
Surplus/(deficit) on revaluation of properties (note (a))	—	—	—	(958)	3,329	—	2,371
Goodwill on acquisition of additional equity interest in an associated company written off	—	(9,925)	—	—	—	—	(9,925)
Profit for the year	—	—	—	—	—	18,095	18,095
At 31st March 2000	<u>274,303</u>	<u>118,620</u>	<u>(306)</u>	<u>4,583</u>	<u>3,329</u>	<u>(48,088)</u>	<u>352,441</u>
At 1st April 2000	274,303	118,620	(306)	4,583	3,329	(48,088)	352,441
Capitalisation issue	(51,408)	—	—	—	—	—	(51,408)
Issuing expenses	(33)	—	—	—	—	—	(33)
Deficit on revaluation of properties (note (a))	—	—	—	(350)	(2,500)	—	(2,850)
Profit for the year	—	—	—	—	—	1,198	1,198
At 31st March 2001	<u>222,862</u>	<u>118,620</u>	<u>(306)</u>	<u>4,233</u>	<u>829</u>	<u>(46,890)</u>	<u>299,348</u>

21 Reserves *(continued)*

	Company			
	Share premium	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 1999	146,334	174,556	(4,807)	316,083
Share premium on issue of shares, net of issuing expenses	127,969	—	—	127,969
Loss for the year	—	—	(21)	(21)
At 31st March 2000	<u>274,303</u>	<u>174,556</u>	<u>(4,828)</u>	<u>444,031</u>
At 1st April 2000	274,303	174,556	(4,828)	444,031
Capitalisation issue	(51,408)	—	—	(51,408)
Issuing expenses	(33)	—	—	(33)
Loss for the year	—	—	(172)	(172)
At 31st March 2001	<u>222,862</u>	<u>174,556</u>	<u>(5,000)</u>	<u>392,418</u>

- (a) These represent deficit arising on revaluation of properties at the balance sheet date. The accounting policies in respect of revaluation of properties are set out in note 1(f) and (h) to the accounts.
- (b) The contributed surplus of the company represents the difference between the par value of the company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the credit arising from the reduction of share capital during the year ended 31st March 1999. Under the Companies Act 1981 of Bermuda (as amended) and the company's Bye-laws the contributed surplus is not distributable to shareholders except that immediately following the distributions or dividend payments, the company is able to pay its debts as they fall due in the ordinary course of business.

22 Long-term liabilities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank loans — secured (<i>note (a)</i>)	39,304	24,551
Obligations under finance leases (<i>note (b)</i>)	924	77
	<hr/>	<hr/>
	40,228	24,628
Current portion of long-term liabilities	(15,058)	(12,442)
	<hr/>	<hr/>
	25,170	12,186
	<hr/> <hr/>	<hr/> <hr/>

(a) Secured bank loans are repayable in the following periods:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	14,516	12,426
In the second year	1,389	5,706
In the third to fifth years inclusive	1,001	3,570
More than five years	22,398	2,849
	<hr/>	<hr/>
	24,788	12,125
	<hr/>	<hr/>
	39,304	24,551
	<hr/> <hr/>	<hr/> <hr/>

(b) Obligations under finance leases are payable in the following periods:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	542	16
In the second year	353	16
In the third to fifth years inclusive	29	45
	<hr/>	<hr/>
	382	61
	<hr/>	<hr/>
	924	77
	<hr/> <hr/>	<hr/> <hr/>

23 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2001	2000
	HK\$'000	HK\$'000
Profit before taxation	2,431	18,095
Share of loss of a jointly controlled entity	1,926	2,364
Share of losses less profits of associated companies	7,564	7,147
Gains on dilution of interests in associated companies	(16,193)	—
Interest income	(4,512)	(6,209)
Interest on bank loans and overdrafts	3,974	3,502
Interest element on finance leases	29	5
Dividend income from unlisted investments	—	(500)
Deficit arising on revaluation of leasehold land and buildings not covered by previous revaluation surplus	1,390	2,349
Unrealised loss on other investments	63	—
Loss on disposal of fixed assets	6	—
Depreciation of owned fixed assets	15,578	8,434
Depreciation of fixed assets held under finance leases	151	1,224
Amortisation of films rights	32,965	26,990
Loss on liquidation of an associated company	—	18
Decrease/(increase) in inventories	3,431	(1,709)
Increase in films sub-licensing rights and deposits	(13,619)	(17,426)
Increase in accounts receivable	(3,393)	(316)
Increase in prepayments, deposits and other receivables	(7,820)	(11,071)
Decrease in accounts and bills payable, receipts in advance and accruals	(4,733)	(11,204)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>19,238</u>	<u>21,693</u>

23 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Bank loans and finance lease obligations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April	300,007	160,617	17,908	7,041
Issue of shares	—	142,730	—	—
Issuing expenses	(33)	(3,340)	—	—
Payment of capital element of finance leases	—	—	(353)	(1,322)
Bank loans raised	—	—	12,473	12,189
Inception of finance lease (note (c))	—	—	1,200	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March	<u>299,974</u>	<u>300,007</u>	<u>31,228</u>	<u>17,908</u>

(c) Major non-cash transactions

During the year, the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK\$1,200,000 (2000: Nil).

During the year, two associated companies issued additional shares to other independent investors outside the group. As a result, the interest of the group in such associated companies were diluted. Such dilution resulted in a gain of approximately HK\$16,193,000 (notes 3 and 30).

An interest-free shareholder's loan amounting to HK\$4,500,000 advanced to China10K.com (BVI) Limited, an associated company, was capitalised and applied in paying up 576,900 shares of US\$1 each in that company in full in May 2000.

The interest-free loans amounting to HK\$3,682,000 advanced to M21 Investment Limited, a subsidiary of an associated company of the group, was capitalised and applied in paying up 45 shares of US\$1 each in that company in full in March 2001.

24 Commitments

- (a) As at 31st March 2001, the group had commitments not provided for in these accounts as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(i) Capital commitment for property, plant and machinery	<u>2,570</u>	<u>—</u>
(ii) Capital commitment in respect of land and properties under development	<u>21,871</u>	<u>58,800</u>
(iii) Commitment in respect of the acquisition of an additional interest in an associated company	<u>—</u>	<u>2,000</u>
(iv) Other commitments in respect of		
— film production	<u>26,780</u>	24,976
— film licensing agreements	<u>25,333</u>	<u>31,401</u>
	<u>52,113</u>	<u>56,377</u>

- (b) As at 31 March 2001, the group had commitments under operating leases to make payments in the next year in respect of land and buildings as follows:—

	Group	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which expire:		
— within one year	<u>272</u>	865
— in the second to fifth years inclusive	<u>—</u>	<u>102</u>
	<u>272</u>	<u>967</u>

25 Contingent liabilities

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	51,454	36,419
Associated companies	2,997	6,971	2,997	6,971
	<u>2,997</u>	<u>6,971</u>	<u>54,451</u>	<u>43,390</u>

26 Pledge of assets — Group

- (a) Banking facilities amounting to HK\$83,274,000 (2000: HK\$61,790,000) granted by banks to the group are secured by the following:
- (i) legal charges over certain of the group's properties and plant and machinery (note 10);
 - (ii) corporate guarantees executed by the company; and
 - (iii) 30,000,000 shares of the company held by Kuo Hsing Holdings Limited.
- (b) Prior year's bank deposits of HK\$14,000,000 were pledged to a bank to secure banking facilities granted to the group.

27 Related party transactions

Save as disclosed in other notes to the accounts, significant related party transactions, which were carried out in the normal course of the group's business are as follows:

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Purchase of fixed assets from an associated company		—	29,639
Replication fee paid to associated companies	(a)	86,446	83,785
Interest income from associated companies	(b)	3,860	2,802
Origination fees received from associated companies	(c)	366	307
Rental income from associated companies	(d)	13,996	7,429
Website development and web hosting fees from an associated company	(e)	2,040	2,800
Sale of goods to an associated company	(f)	4,601	1,850
Pre-mastering service fee paid to an associated company	(g)	1,091	—

- (a) Replication fee paid to the associated company was charged at prices and terms no less favourable to the group than those charged to other third party customers by that associated company. The transaction was conducted in the normal course of business of the group.
- (b) Interest received from associated companies was charged at Hong Kong prime rate plus 1.5 per cent. per annum.
- (c) Origination fees received from associated companies were charged at prices and terms no less than those charged to other third party customers of the group.
- (d) Rental income from the sub-letting of factory premises and leasing of certain plant and machinery to certain associated companies was determined on a cost reimbursement basis.
- (e) Website development and web hosting fees received from an associated company were determined in accordance with the relevant service agreements.
- (f) Sale of audio visual products to an associated company, which were conducted in the normal course of business, were made at prices and terms no less than those charged to other third party customers of the group.
- (g) Pre-mastering service fee paid to an associated company was charged at prices and terms comparable with those charged to and contracted with independent third party customers of the group.

28 Post balance sheet date events

Subsequent to year end date, the group disposed of its entire equity interest in Era Information & Entertainment Limited ("Era I&E") following the listing of its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in June 2001. The disposal of such investment securities gave rise to a net profit of approximately HK\$6,166,000 which will be recognised in the financial year 2002.

29 Group structure — subsidiaries

At 31st March 2001, the company held interests in the following principal subsidiaries:

Name	Place of incorporation/ operations	Issued/ registered capital	Percentage holding in the voting shares	Nature of business
Shares held directly:				
Mei Ah Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,050	100	Investment holding
Shares held indirectly:				
Mei Ah Video Production Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$10,000	100	Processing of audio visual products
Mei Ah Investment Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$500,000	100	Investment holding
Mei Ah Film Production Company Limited	Hong Kong	Ordinary HK\$2	100	Production, sales and licensing of video movies

29 Group structure — subsidiaries *(continued)*

At 31st March 2001, the company held interests in the following principal subsidiaries:

Name	Place of incorporation/ operations	Issued/ registered capital	Percentage holding in the voting shares	Nature of business
Mei Ah Laser Disc Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$100,000	100	Distribution of audio visual products
Mei Ah (HK) Company Limited	Hong Kong	Ordinary HK\$10,000	100	Distribution of audio visual products
Mei Ah Development Company Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,000	100	Sub-licensing of film rights
Mei Ah Trading Company Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,000	100	Sub-licensing of film rights
Mei Ah Entertainment Development Company Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Cameron Entertainment Company Limited	Hong Kong	Ordinary HK\$2	100	Distribution of audio visual products
Mei Ah Multi-Media Workshop Limited	Hong Kong	Ordinary HK\$10,000	65	Programming of audio visual products
Mei Ah Webcast International Corporation Limited	Hong Kong	Ordinary HK\$2	100	Provision of internet services
Brilliant Idea Group Limited	Hong Kong	Ordinary HK\$10,000	51	Production, sales and licensing of video movies
Mei Ah (China) Company Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Mei Ah Edutainment Publishing Limited	Hong Kong	Ordinary HK\$92	100	Distribution of audio visual products

30 Group structure — associated companies

At 31st March 2001, the company held shares in the following principal associated companies:

Name	Place of establishment/ operations	Issued shares capital	Effective percentage holding	Nature of business
Shares held indirectly:				
Platinum Laser Disc Sdn. Bhd.	Malaysia	Rt100,000	40	Distribution of audio visual products
Cyberworks Audio Video Technology Limited (formerly known as Mei Ah Audio Video Technology Limited)	Hong Kong	HK\$10,000,000	45	Processing of audio visual products
Asia Pacific Infotainment Services Limited (formerly known as Mei Ah Cyberworks Corporation Limited)	British Virgin Islands	US\$100	45	Investment holding
M21 Technology Limited (note (a))	Bermuda	HK\$3,125,000	29.25	Investment holding
M21 Mastertech Company Limited (formerly known as Mei Ah Mastertech Company Limited) (note (a))	Hong Kong	HK\$2,000	29.25	Processing of audio visual products
China 10K.com (BVI) Company Limited (note (b))	British Virgin Islands	US\$10,000	41	Investment holding
China Culture Media Group Company Limited (formerly known as China 10K.com Company Limited) (note (b))	Hong Kong	HK\$100	41	Provision of internet content and e-commerce business

30 Group structure — associated companies *(continued)*

Note

- (a) M21 Mastertech Company Limited (“M21 Mastertech”) (formerly known as Mei Ah Mastertech Company Limited) became the subsidiary of M21 Technology Limited (“M21 Technology”) pursuant to a reorganisation in relation to the listing of M21 Technology’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in March 2001. Following the reorganisation, the interests of the group in M21 Technology Limited and M21 Mastertech were diluted from 45% to 29.25%.

- (b) During the year, China 10K.com (BVI) Limited (“China 10K.com”) issued a total of 323,000 shares to two independent investors. As a result, the interests of the group in China 10K.com and China Culture Media Group Company Limited were diluted from 45% to 41%.

31 Approval of accounts

The accounts were approved by the board of directors on 26th July 2001.