

## NOTES TO THE ACCOUNTS

### 1. 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

##### (i) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, 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.

Controlled enterprises are enterprises which the Group has the power, directly or indirectly, to govern their financial and operating policies so as to obtain benefits from their activities. Controlled enterprises may include subsidiaries.

An investment in a controlled enterprise is consolidated into the consolidated accounts, unless it:

- is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as other investments in securities as set out in Note 1(q) below; or
- does not also meet the above definition of a subsidiary, in which case, it is accounted for in the consolidated accounts in the same way as an associate.

All material intra-Group transactions and balances are eliminated on consolidation.

##### (ii) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

For acquisitions before January 1, 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see Note 1(r) below).

For acquisitions on or after January 1, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(r) below).

On disposal of a consolidated controlled enterprise during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

## 1. Significant accounting policies *continued*

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

Property, plant and equipment are stated in the balance sheet at cost, less accumulated depreciation and any accumulated impairment losses (see Note 1(r) below). 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. Estimated cost of dismantling and removing the property, plant and equipment and restoring the site, to the extent that it is recognised as a provision under Statement of Standard Accounting Practice ("SSAP") 28 "Provisions, contingent liabilities and contingent assets" issued by the Hong Kong Society of Accountants, is also included.

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 ranging from 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. 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.

The principal annual depreciation rates used 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%

### **(e) Programming library**

Programming library consists of commissioned programming and acquired programming costs in respect of programming licence agreements for rights of presentation, and are stated in the balance sheet at cost less accumulated amortisation and any impairment losses (see Note 1(r) below). Amortisation is charged to the profit and loss account on an accelerated basis over the licence period or over the estimated number of future showings. Subsequent expenditure on programmes after initial acquisition is recognised as an expense when incurred.

Costs of in-house programmes are written off in the period in which they are 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 inventories net of 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 purpose of preparing the cash flow statement, cash equivalents are shown net of 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.

## NOTES TO THE ACCOUNTS *continued*

### 1. Significant accounting policies *continued*

#### **(h) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if any, 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 contract period.
- (iv) Programming licensing income is recognised on a straight line basis over the 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 with reference to the percentage of contract costs incurred to date relative to the estimated total contract costs. 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) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (vii) 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 recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received or granted are recognised in the profit and loss account as an integral part of the aggregate net lease rentals payable or receivable.

#### **(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.

## 1. Significant accounting policies *continued*

### **(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 1(h)(v) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense with 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 the 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**

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses (see Note 1(r) below), unless the subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value, with changes in fair value recognised in the same way as other investments in securities as set out in Note 1(q) below.

### **(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.

### **(r) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or any impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries (except for those accounted for as other investments in securities as mentioned in Note 1(p) above);
- programming library; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

## NOTES TO THE ACCOUNTS *continued*

### 1. Significant accounting policies *continued*

#### **(r) Impairment of assets** *continued*

##### *(i) Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generates cash inflows independently (ie a cash-generating unit).

##### *(ii) Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss has been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

#### **(s) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings and corporate and financing expenses.

#### **(t) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 2. Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 33 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.

### 3. Segment information

#### *Business segments*

	Pay television		Internet and multimedia		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<i>Revenue</i>						
External revenue	<b>1,595,362</b>	1,540,887	<b>335,637</b>	108,514	<b>1,930,999</b>	1,649,401
<i>Result</i>						
Segment result	<b>349,323</b>	210,088	<b>(49,692)</b>	(113,205)	<b>299,631</b>	96,883
Unallocated corporate expenses					<b>(119,802)</b>	(103,573)
Operating profit / (loss)					<b>179,829</b>	(6,690)
Interest income					<b>58,649</b>	101,254
Non-operating income / (expense)					<b>1,027</b>	(2,397)
Finance expense					<b>(72,013)</b>	(72,006)
Taxation					<b>-</b>	-
Profit attributable to shareholders					<b>167,492</b>	20,161
<i>Assets</i>						
Segment assets	<b>1,726,945</b>	2,027,391	<b>886,527</b>	423,103	<b>2,613,472</b>	2,450,494
Unallocated corporate assets					<b>1,642,399</b>	1,676,187
Consolidated total assets					<b>4,255,871</b>	4,126,681
<i>Liabilities</i>						
Segment liabilities	<b>550,628</b>	636,308	<b>279,441</b>	172,133	<b>830,069</b>	808,441
Unallocated corporate liabilities					<b>1,982,427</b>	2,027,857
Consolidated total liabilities					<b>2,812,496</b>	2,836,298
<i>Other information</i>						
Capital expenditure						
– property, plant and equipment	<b>336,018</b>	291,302	<b>286,034</b>	201,244		
– programming library	<b>81,078</b>	115,754				
Depreciation	<b>285,016</b>	396,926	<b>143,198</b>	47,572		
Amortisation	<b>103,200</b>	106,151				

#### *Geographical segments*

No geographical segment information is shown, as during the periods presented, less than 10% of the Group's segment revenue, segment result and segment assets are derived from activities conducted outside Hong Kong.

## NOTES TO THE ACCOUNTS *continued*

### 4. Non-operating income / (expense)

This comprises net profit / (loss) on disposal of fixed assets.

### 5. Profit before taxation

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

	2001 HK\$'000	2000 HK\$'000
<i>Interest income</i>		
Interest income from listed investments	(8,691)	(33,926)
Interest income from bank deposits	(49,655)	(67,328)
Other	(303)	–
	<b>(58,649)</b>	(101,254)
<i>Finance expense</i>		
Interest expenses on bank overdrafts repayable within five years	13	6
Interest expenses on convertible bonds, repayable within five years	72,000	72,000
	<b>72,013</b>	72,006
<i>Other items</i>		
Depreciation:		
– assets held for use in operating leases	32,453	6,705
– others	402,206	442,589
Amortisation of programming library*	103,253	106,151
Cost of inventories	23,841	18,243
Rentals payable under operating leases in respect of land and buildings	42,736	40,742
Auditors' remuneration	1,802	1,397
Exchange gain on foreign currency deposits	–	(2,599)
Rentals receivable under operating leases in respect of:		
Subleased land and buildings	(7,146)	(4,459)
Owned plant and machinery	(30,955)	(6,017)

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

Operating expenses are analysed by nature in compliance with SSAP 1, "Presentation of Financial Statements" as follows:

	2001 HK\$'000	2000 HK\$'000
Depreciation and amortisation (including amortisation of programming library)	537,912	555,445
Staff costs	627,455	548,883
Other operating expenses	585,803	551,763
	<b>1,751,170</b>	1,656,091

## 6. Taxation

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

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	8,825	6,737
Overprovision in respect of prior years	–	(1)
Deferred tax credit (Note 32(a))	(8,825)	(6,736)
	–	–

The provision for Hong Kong Profits Tax is calculated separately on the taxable profit of each entity within the Group at 16% (2000: 16%).

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	8,825	6,737
Provisional Profits Tax paid	(6,737)	(4,522)
	2,088	2,215

## 7. Directors' emoluments

Details of Directors' emoluments are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	144	128
Basic salaries, housing and other allowances, and benefits in kind	2,978	3,102
Retirement scheme contributions	128	129
Discretionary bonuses and/or performance related bonuses	4,040	3,577
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	7,290	6,936

Included in the Directors' emoluments were fees of HK\$72,000 (2000: HK\$48,000) payable to the independent non-executive Directors. Furthermore, reimbursement of expenses of HK\$16,000 (2000: Nil) was paid to an independent non-executive Director.

Except Directors' fees of HK\$144,000 (2000: HK\$128,000), all of the Directors' emoluments disclosed above were paid directly by the Company's ultimate holding company, The Wharf (Holdings) Limited ("Wharf") (or its wholly owned subsidiaries) to the relevant Directors. Wharf recovered such costs from the Group by charging a management fee (see Note 37(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 details of these benefits in kind are disclosed under the paragraph "Share Option Scheme of the Company" in Disclosure of Further Corporate Information.



## NOTES TO THE ACCOUNTS *continued*

### 7. Directors' emoluments *continued*

The emoluments of the Directors are within the following bands:

	2001 Number of directors	2000 Number of directors
HK\$		
Nil – 1,000,000	9	7
4,500,001 – 5,000,000	1	1
	<b>10</b>	<b>8</b>

### 8. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2000: one) is a director whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other four (2000: four) individuals are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing and other allowances, and benefits in kind	9,030	8,647
Retirement scheme contributions	778	706
Discretionary bonuses and/or performance related bonuses	3,128	3,219
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	<b>12,936</b>	<b>12,572</b>

The emoluments of the four (2000: four) individuals with the highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
HK\$		
2,500,001 – 3,000,000	2	1
3,000,001 – 3,500,000	1	2
3,500,001 – 4,000,000	1	1
	<b>4</b>	<b>4</b>

### 9. Profit attributable to shareholders

The profit attributable to shareholders includes a profit of HK\$491,346,000 (2000: a loss of HK\$2,530,000) which has been dealt with in the accounts of the Company.

**10. Dividend attributable to the year**

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Final dividend proposed after the balance sheet date of 2.5 cents per share (2000: Nil)	<b>50,350</b>	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

**11. Basic and diluted earnings per share**

The calculation of basic earnings per share is based on the net profit of HK\$167,492,000 (2000: HK\$20,161,000) and the weighted average number of ordinary shares outstanding during the year of 2,014,000,000 (2000: 2,014,000,000).

The calculation of diluted earnings per share is based on the net profit of HK\$167,492,000 (2000: HK\$20,161,000) and the weighted average number of ordinary shares of 2,022,501,763 (2000: 2,014,000,000) after adjusting for the effects of all dilutive potential ordinary shares as shown below:

	<b>2001</b> <b>Number of</b> <b>shares</b>	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>2,014,000,000</b>	2,014,000,000
Deemed issue of ordinary shares for no consideration	<b>8,501,763</b>	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>2,022,501,763</b>	2,014,000,000

The potential issue of ordinary shares in connection with the Company's convertible bonds would not give rise to a decrease in earnings per share and therefore had no dilutive effect on the calculation of diluted earnings per share.

**12. Change in accounting policy**

In order to comply with SSAP 30 "Business combinations", with effect from January 1, 2001, the Group has adopted an accounting policy of amortising positive goodwill arising on the acquisition of subsidiaries on a straight-line basis to the profit and loss account over its estimated useful economic life. In prior years, positive goodwill arising on the acquisition of subsidiaries was taken to reserves in the year in which it arose. As the Group has taken advantage of the transitional provisions in SSAP 30 which do not require restatement of goodwill written off against reserves prior to January 1, 2001 (the effective date of SSAP 30), such change in accounting policy has no financial effect on the Group for the current and prior years.

In order to comply with SSAP 26 "Segment reporting", with effect from January 1, 2001, the Group has adopted an accounting policy of including as segment revenue, expenses, results, assets and liabilities those items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Corporate and financing expenses are reported as unallocated items. In prior years, all revenue and expenses, except those directly earned or incurred by the Internet and multimedia segment, were reported under the pay television segment. As a result, there has been a reclassification of items included under each reportable segment in the current year as compared to that in the prior year. Comparatives for segment disclosures for the year ended December 31, 2000 have been restated, resulting in increase in operating profit reported under the pay television segment by HK\$136,831,000, increase in operating loss reported under the Internet and multimedia segment by HK\$33,258,000, and amounts totalling HK\$103,573,000 separately reported as unallocated corporate expenses under the new basis.

## NOTES TO THE ACCOUNTS *continued*

### 13. 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 improve- ments HK\$'000	Total HK\$'000
			Long lease HK\$'000	Medium lease HK\$'000	Short lease HK\$'000		
Cost							
At January 1, 2001	3,979,490	414,127	3,306	1,938	70	225,110	4,624,041
Additions	554,006	36,597	-	-	-	35,732	626,335
Disposals	(15,940)	(4,296)	-	-	-	(121)	(20,357)
Reclassification	(6,428)	-	-	-	-	-	(6,428)
<b>At December 31, 2001</b>	<b>4,511,128</b>	<b>446,428</b>	<b>3,306</b>	<b>1,938</b>	<b>70</b>	<b>260,721</b>	<b>5,223,591</b>
Accumulated depreciation							
At January 1, 2001	2,091,721	345,585	912	44	70	113,246	2,551,578
Charge for the year	389,537	23,929	77	48	-	21,068	434,659
Written back on disposals	(13,319)	(4,292)	-	-	-	(17)	(17,628)
Reclassification	(2,285)	-	-	-	-	-	(2,285)
<b>At December 31, 2001</b>	<b>2,465,654</b>	<b>365,222</b>	<b>989</b>	<b>92</b>	<b>70</b>	<b>134,297</b>	<b>2,966,324</b>
Net book value							
<b>At December 31, 2001</b>	<b>2,045,474</b>	<b>81,206</b>	<b>2,317</b>	<b>1,846</b>	<b>-</b>	<b>126,424</b>	<b>2,257,267</b>
At December 31, 2000	1,887,769	68,542	2,394	1,894	-	111,864	2,072,463

As at December 31, 2001, the gross carrying amounts of fixed assets of the Group held for use in operating leases were HK\$177,386,000 (2000: HK\$73,737,000) and the related accumulated depreciation was HK\$36,873,000 (2000: HK\$6,705,000).

**14. Programming library**

	<b>Group</b>
	HK\$'000
Cost	
At January 1, 2001	506,848
Programming licences and rights acquired	81,349
Written off	(107,241)
<b>At December 31, 2001</b>	<b>480,956</b>
Accumulated amortisation	
At January 1, 2001	274,324
Charge for the year	103,253
Written off	(107,241)
<b>At December 31, 2001</b>	<b>270,336</b>
Net book value	
<b>At December 31, 2001</b>	<b>210,620</b>
At December 31, 2000	232,524

**15. Non-current financial assets**

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted non-trading investments	<b>78,925</b>	93,425

**16. Investment in subsidiaries**

	<b>Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares at cost	<b>8</b>	8

Particulars of subsidiaries are set out in Note 33.

## NOTES TO THE ACCOUNTS *continued*

### 17. Long term deposits

The Group has placed deposits with a financial institution, maturing in 2003. The deposits are credit-linked to investment grade debt securities of a fellow subsidiary.

### 18. Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured and interest free, except for amounts totalling HK\$1,800,000,000 (2000: HK\$1,800,000,000) which bear interest at 4% per annum and have no fixed terms of repayment.

### 19. Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Spare parts, consumables and equipment held for resale	55,052	50,876
Less: Provision for obsolescence	(18,577)	(21,356)
	<b>36,475</b>	29,520

Included in spare parts, consumables and equipment held for resale are inventories of HK\$36,475,000 (2000: HK\$29,520,000) stated net of provision made in order to state these inventories at the lower of their cost and estimated net realisable value.

### 20. 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	
	2001 HK\$'000	2000 HK\$'000
0 to 30 days	71,550	67,469
31 to 60 days	13,916	14,465
61 to 90 days	7,270	7,116
Over 90 days	5,287	4,236
	<b>98,023</b>	93,286

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

### 21. Amounts due from fellow subsidiaries

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

**22. Cash and cash equivalents**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank deposits	1,209,944	1,531,105	–	–
Cash at bank and in hand	2,466	9,835	32	80
	<b>1,212,410</b>	1,540,940	<b>32</b>	80

**23. Bank overdrafts**

Bank overdrafts were repayable on demand and were used for working capital purposes, bearing interest at rates of 5.125% and 9.5% per annum at December 31, 2001 and 2000 respectively.

**24. Amounts due to trade creditors**

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

	Group	
	2001 HK\$'000	2000 HK\$'000
0 to 30 days	7,389	12,797
31 to 60 days	17,172	19,468
61 to 90 days	8,584	5,589
Over 90 days	13,684	4,262
	<b>46,829</b>	42,116

**25. Amounts due to subsidiaries**

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

**26. Amounts due to fellow subsidiaries**

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

**27. Amount due to immediate holding company**

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

## NOTES TO THE ACCOUNTS *continued*

### 28. 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	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Inventories	18,167	10,924	–	–
Accounts receivable from trade debtors	2,548	2,548	–	–
Prepayments and other receivables	4,400	2	–	–
Deposits	2,260	6,277	–	–
Amounts due from fellow subsidiaries	7,129	8,511	–	–
Accrued expenses and other payables	–	(34,902)	–	–
Receipts in advance and customers' deposits	(86,749)	(93,763)	–	–
Amounts due to fellow subsidiaries	(13)	–	–	–
Amounts due to subsidiaries	–	–	–	(4)

### 29. Share capital

	2001 HK\$'000	2000 HK\$'000
Authorised 8,000 million ordinary shares of HK\$1 each	8,000,000	8,000,000
Issued and fully paid 2,014 million ordinary shares of HK\$1 each	2,014,000	2,014,000

Pursuant to the Company's share option scheme, the Board of Directors is authorised to grant options to eligible employees to subscribe for ordinary shares of the Company at prices as determined by the Board of Directors in accordance with the terms of the scheme.

At December 31, 2001, the outstanding options were:

Date options granted	Period during which options exercisable	Exercise price per share	Number of options			
			At January 1, 2001	Granted during the year	Lapsed during the year	At December 31, 2001
February 8, 2000	April 1, 2001 to December 31, 2009	HK\$10.49	19,520,000	–	(560,000)	18,960,000
February 19, 2001	July 1, 2002 to December 31, 2003	HK\$3.30	–	34,813,000	(1,812,000)	33,001,000
February 19, 2001	July 1, 2002 to December 31, 2005	HK\$3.30	–	15,221,000	(339,000)	14,882,000

**30. Reserves**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>(a) Revenue reserve</b>				
At January 1*	(5,549,943)	(5,570,104)	(1,908)	622
Transfer from profit and loss account	167,492	20,161	491,346	(2,530)
At December 31*	(5,382,451)	(5,549,943)	489,438	(1,908)
<b>(b) Share premium</b>				
At January 1 and December 31	4,826,326	4,826,326	4,826,326	4,826,326
<b>(c) Investment revaluation reserve</b>				
At January 1	–	–	–	–
Revaluation deficit	(14,500)	–	–	–
At December 31	(14,500)	–	–	–
Total reserves	(570,625)	(723,617)	5,315,764	4,824,418

At December 31, 2001, reserves of the Company available for distribution to shareholders amounted to HK\$489,438,000 (2000: Nil).

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

\* Included in the Group's revenue reserve at January 1 and December 31, 2001 is positive goodwill written off against reserves in prior years amounting to HK\$197,785,000. The amount has not been restated in accordance with the accounting policy set out in Note 1(c)(ii) above as the Group has taken advantage of the transitional provisions in SSAP 30 as explained in Note 12 above.

**31. Interest-bearing borrowings**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Convertible bonds	1,800,000	1,800,000	1,800,000	1,800,000

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, to 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.



## NOTES TO THE ACCOUNTS *continued*

### 31. Interest-bearing borrowings *continued*

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.

### 32. Deferred taxation

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

	Group	
	2001 HK\$'000	2000 HK\$'000
At January 1	159,444	166,180
Transfer to the profit and loss account (Note 6(a))	(8,825)	(6,736)
At December 31	<b>150,619</b>	159,444

The amounts provided for deferred taxation represent mainly tax depreciation allowances in excess of the related accounting depreciation.

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Future benefit of tax losses	1,046,728	1,063,828
Accelerated amortisation of the programming library	–	(37,204)
Tax depreciation allowances in excess of related accounting depreciation	(112,153)	(84,901)
Provision for obsolete inventories	32	32
	<b>934,607</b>	941,755

### 33. Particulars of subsidiaries

The subsidiaries of the Company at December 31, 2001 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
Apex Victory Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	100	–
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	–	–
Global Media In Force Limited	Hong Kong	Advertising airtime, programme licensing and online shopping	2 ordinary shares of HK\$1 each	–	100
Hong Kong Cable Television Limited	Hong Kong	Pay television services	1,000,000,000 ordinary shares of HK\$1 each	–	100
i-CABLE Cineplex Limited	Hong Kong	Inactive	10,000,000 ordinary shares of HK\$1 each	–	100
i-CABLE China Limited	British Virgin Islands	Inactive	500 ordinary shares of US\$1 each	–	100
i-CABLE Network Limited	Hong Kong	Network operation services	100 ordinary shares of HK\$1 each	–	100
			2 non-voting deferred shares of HK\$1 each	–	–
i-CABLE Satellite Television Limited	Hong Kong	Non-domestic television services	2 ordinary shares of HK\$1 each	–	100
i-CABLE WebServe Limited	Hong Kong	Internet and multimedia services	2 ordinary shares of HK\$1 each	–	100

## NOTES TO THE ACCOUNTS *continued*

### 33. 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 Ventures Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$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	–	–
Moscan Assets Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	–	100
New Television and Film International Limited	Hong Kong	Inactive	2 ordinary shares of HK\$10 each	–	100
Rediffusion Engineering Limited	Hong Kong	Systems installation and operation	100 ordinary shares of HK\$1 each	–	100
			2 non-voting deferred shares of HK\$1 each	–	–
Rediffusion (Hong Kong) Limited	Hong Kong	Cable television relay services	100 ordinary shares of GBP0.50 each	–	100
			40,000 non-voting deferred shares of GBP0.50 each	–	–
Rediffusion Satellite Services Limited	Hong Kong	Satellite television systems	1,000 ordinary shares of HK\$10 each	–	100
Riddlewood Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	–	100

**33. 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
Wisdom Global Holdings Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	–	100

Details of partnerships held indirectly through subsidiaries at December 31, 2001 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

**34. Operating leases****(a) Significant leasing arrangements**

The Group leases a number of premises under operating leases for use as office premises, carparks, warehouses, district centres, retail shops, remote camera sites, multipoint microwave distribution system transmission sites and hub sites. The terms of the leases vary and may be renewable on a monthly basis or run for an initial period of three to fifteen years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually adjusted every two to three years to reflect market rentals. None of the leases includes contingent rentals.

Some of the leased properties have been sublet by the Group under operating leases. The terms of the subleases vary and may be renewable on a monthly basis or run for an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated.

The Group leases out cable modem equipment to subscribers under operating leases. The terms of the leases vary and may run for an initial period of not more than twelve months. Upon expiry, the leases will automatically renew on a year-to-year basis at prevailing rate unless terminated by the lessees by giving 30 days' written notice prior to the lease expiration date. None of the leases includes contingent rentals.

**(b) Operating lease commitments**

The total future minimum lease payments payable under non-cancellable operating leases are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	36,199	36,848	–	–
After one year but within five years	106,481	136,700	–	–
After five years	13,529	22,651	–	–
	<b>156,209</b>	196,199	–	–

## NOTES TO THE ACCOUNTS *continued*

### 34. Operating leases *continued*

#### (c) Future operating lease income

- (i) The total future minimum sublease payments receivable under non-cancellable subleases at December 31, 2001 amounted to HK\$15,039,000 (2000: HK\$845,000).
- (ii) The total future minimum lease payments receivable in respect of cable modem equipment under non-cancellable operating leases are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	5,274	5,629	–	–

### 35. Capital commitments

Capital commitments outstanding as of December 31, 2001 not provided for in the accounts were as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Authorised and contracted for				
– Plant and equipment	160,743	61,982	–	–
– Programming rights	2,626	–	–	–
	163,369	61,982	–	–
Authorised but not contracted for				
– Plant and equipment	132,343	22,376	–	–
– Programming rights	28,907	5,494	–	–
	161,250	27,870	–	–

### 36. Contingent liabilities

As of December 31, 2001, there were contingent liabilities in respect of the following:

- (i) Performance bond amounting to HK\$20 million (2000: HK\$25 million) given to the Telecommunications Authority of Hong Kong as required under the Group's 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.
- (iii) Guarantees, indemnities and letters of awareness to banks totalling HK\$151 million (2000: HK\$78 million) in respect of overdraft facilities and guarantees given by those banks in respect of programming and equipment acquisitions, customs duties and other charges relating to subsidiaries. Of this amount, at December 31, 2001, HK\$41 million (2000: HK\$37 million) was utilised by the subsidiaries.

### 36. Contingent liabilities *continued*

- (iv) The Group is currently in discussion with the Inland Revenue Department regarding the deductibility of certain interest payments claimed in previous years' tax computations. The outcome of the discussion is uncertain. The management of the Group is of the view that there are ample grounds to support the deductibility of the interest expense and accordingly, no provision has been made in this respect. In addition, the immediate holding company has indemnified the Group against any liability for tax which may arise in consequence of an event occurring on or before November 1, 1999. It is estimated that the maximum tax exposure at December 31, 2001 amounted to HK\$97 million, of which HK\$72 million will be indemnified by the immediate holding company.

### 37. Related party transactions

The following represent material related party transactions between the Group and related parties during the year ended December 31, 2001:

	2001 HK\$'000	2000 HK\$'000
Interest expenses on convertible bonds held by the Wharf group ( <i>Note (i)</i> )	72,000	72,000
Rentals payable and related management fees on land and buildings ( <i>Note (ii)</i> )	40,700	38,954
Rentals receivable on land and buildings ( <i>Note (iii)</i> )	(5,769)	(1,972)
Network repairs and maintenance services charge ( <i>Note (iv)</i> )	(16,307)	(14,243)
Management fees ( <i>Note (v)</i> )	12,797	11,991
Computer services ( <i>Note (vi)</i> )	9,106	10,751
Leased line and Public Non-Exclusive Telecommunications Service ("PNETS") charges and international bandwidth access charges ( <i>Note (vii)</i> )	20,916	7,364
Project management fees ( <i>Note (viii)</i> )	(10,371)	(10,188)

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, 2001, related rental deposits amounted to HK\$8,773,000 (2000: HK\$8,473,000).
- (iii) This represents rental received from a fellow subsidiary in respect of the lease 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 the leasing of datalines, PNETS charges and international bandwidth access charges incurred.
- (viii) This represents fees received from a fellow subsidiary for the provision of project management services.

Included in Note 13 were additions to property, plant and equipment totalling HK\$5,854,000 (2000: Nil) constructed by a fellow subsidiary on behalf of the Group during the year ended December 31, 2001.

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.

## NOTES TO THE ACCOUNTS *continued*

### 38. Post balance sheet event

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 10.

### 39. Comparative figures

Certain comparative figures in Note 5 and Note 34 have been adjusted as a result of the adoption of SSAP 14 “Leases” to enhance the comparability of the accounts. Similarly, the presentation of Note 14 and Note 35 has been changed as a result of the adoption of SSAP 29 “Intangible assets”.

### 40. Ultimate holding company

The directors consider the ultimate holding company at December 31, 2001 to be The Wharf (Holdings) Limited, which is incorporated in Hong Kong.

### 41. Approval of accounts

The accounts were approved and authorised for issue by the directors on March 14, 2002.