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## **NOTES TO THE FINANCIAL STATEMENTS**

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*For the year ended 31st December, 2001*

### **1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability. Its shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12th September, 2001. Its ultimate holding company is Idea Storm Holdings Limited, a company incorporated in the British Virgin Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the group in preparation for the listing of the Company's shares on the Stock Exchange, on 21st August, 2001, the Company issued shares in exchange for the entire issued share capital of Grimston Limited and thereby became the holding company of the companies now comprising the Group. Further details of the Group Reorganisation were set out in the prospectus of the Company dated 30th August, 2001 (the "Prospectus").

The group comprising the Company and its subsidiaries (the "Group") resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended 31st December, 2000 and 31st December, 2001 have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions".

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of any subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any identified impairment loss.

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## **NOTES TO THE FINANCIAL STATEMENTS**

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*For the year ended 31st December, 2001*

(Continued)

### **2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **Revenue recognition**

Income from the production and distribution of films is recognised when the production is completed, released and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.

Income from the licensing of the distribution and broadcasting rights over films and television series is recognised when the Company's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

Amounts received for pre-sales of the distribution and broadcasting rights over films and television series before completion of production are accounted for as receipts in advance and grouped under trade and other payables in the balance sheet.

Income from the provision of film processing services is recognised when the services are provided.

Advertising and promotional service income is recognised when the services are rendered.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### **Goodwill**

Goodwill (negative goodwill) represents the difference between the cost of acquisition and the fair value of the Group's share of the net assets of the acquired subsidiaries.

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisition prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

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## **NOTES TO THE FINANCIAL STATEMENTS**

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*For the year ended 31st December, 2001*

(Continued)

### **2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **Goodwill** (Continued)

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised over its estimated useful life on a straight line basis. Negative goodwill arising on acquisition after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses at the balance sheet date.

In the current period, the Group has changed to state the leasehold land and buildings from cost to their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight line method at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	20%
Motor vehicles	20% – 30%
Plant, machinery and equipment	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

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## **NOTES TO THE FINANCIAL STATEMENTS**

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*For the year ended 31st December, 2001*

(Continued)

### **2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **Investment**

Investment represents investment securities, which are held for an identified long-term strategic purpose, are measured at cost as reduced by any impairment loss that is other than temporary.

#### **Assets held under a hire purchase contract**

Assets held under a hire purchase contract are capitalised at their fair values at the date of acquisition. The corresponding liability to the hirer, net of interest charges, is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total contractual commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

#### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Film rights and production in progress**

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less foreseeable losses. Such production costs are carried forward as production in progress and are transferred to film rights upon completion.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

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## **NOTES TO THE FINANCIAL STATEMENTS**

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*For the year ended 31st December, 2001*

(Continued)

### **2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **Impairment** (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under other accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

#### **Retirement benefits scheme contributions**

The pension costs charged to the income statement represent the contributions payable in the year to the Group's defined contribution scheme.

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

#### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### **3. SEGMENTAL INFORMATION**

#### **BUSINESS SEGMENTS**

For management purposes, the Group is currently organised into three operating divisions – film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 3. SEGMENTAL INFORMATION (Continued)

#### BUSINESS SEGMENTS (Continued)

Segment information about these businesses is presented below.

#### 2001

	Advertising and promotional services <i>HK\$'000</i>	Film and distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE						
External revenue	23,542	74,509	34,561	277	–	132,889
Inter segment revenue	227	1,465	3,065	226	(4,983)	–
Total revenue	<u>23,769</u>	<u>75,974</u>	<u>37,626</u>	<u>503</u>	<u>(4,983)</u>	<u>132,889</u>
RESULT						
Segment result	<u>2,882</u>	<u>37,019</u>	<u>6,347</u>	<u>(134)</u>	<u>–</u>	46,114
Deficit arising on the revaluation of leasehold land and buildings						<u>(1,604)</u>
Profits from operations						44,510
Finance costs						<u>(361)</u>
Profit before taxation						44,149
Taxation						<u>(3,001)</u>
Net profit for the year						<u>41,148</u>

Inter segment revenue is charged on normal commercial terms and in the ordinary course of business.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 3. SEGMENTAL INFORMATION (Continued)

#### BUSINESS SEGMENTS (Continued)

#### BALANCE SHEET

	Advertising and promotional services <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>					
Segmental assets	6,408	75,631	31,503	1,224	114,766
Unallocated corporate assets					30,059
Consolidated total assets					144,825
<b>LIABILITIES</b>					
Segmental liabilities	2,769	6,152	6,332	61	15,314
Unallocated corporate liabilities					1,638
Consolidated total liabilities					16,952
<b>OTHER INFORMATION</b>					
Capital expenditure	2,835	96	25	34	2,990
Depreciation and amortisation	615	19	130	33	797

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 3. SEGMENTAL INFORMATION (Continued)

#### BUSINESS SEGMENTS (Continued)

2000

	Advertising and promotional services <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE						
External revenue	3,285	50,343	34,026	5,849	–	93,503
Inter segment revenue	–	–	1,879	3,558	(5,437)	–
Total revenue	3,285	50,343	35,905	9,407	(5,437)	93,503
RESULT						
Segment result	–	17,338	6,492	5,836	–	29,666
Finance costs						(587)
Profit before taxation						29,079
Taxation						(3,124)
Net profit for the year						25,955

Inter segment revenue is charged on normal commercial terms and in the ordinary course of business.



## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **3. SEGMENTAL INFORMATION (Continued)**

#### **BUSINESS SEGMENTS (Continued)**

#### **BALANCE SHEET**

	<b>Advertising and promotional services</b>	<b>Film distribution and licensing</b>	<b>Film processing</b>	<b>Other operations</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>					
Segmental assets	2,026	39,565	27,388	1,565	70,544
<b>LIABILITIES</b>					
Segmental liabilities	1,649	20,365	6,115	187	28,316
Unallocated corporate liabilities					6,286
Consolidated total liabilities					34,602
<b>OTHER INFORMATION</b>					
Allowance for bad and doubtful debts	–	777	2,728	–	3,505
Capital expenditure	88	60	182	1,182	1,512
Depreciation and amortisation	4	273	425	7	709

#### **GEOGRAPHICAL SEGMENTS**

The Group's customers are located in Hong Kong, the People's Republic of China, other than Hong Kong (the "PRC"), Taiwan, Malaysia, Europe and other parts of Asia. Film distribution and licensing business is carried out in Hong Kong and the PRC. The Group's advertising and promotional and film processing divisions are located in Hong Kong.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### 3. SEGMENTAL INFORMATION (Continued)

#### GEOGRAPHICAL SEGMENTS (Continued)

An analysis of the Group's revenue by geographical market, based on the origin of the services is presented below.

#### 2001

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>The PRC</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
REVENUE				
Turnover	76,048	29,518	24,111	129,677
Other revenue	2,598	–	614	3,212
	<u>78,646</u>	<u>29,518</u>	<u>24,725</u>	<u>132,889</u>
Total revenue				
RESULT				
Segment result	5,596	27,970	12,548	46,114
	<u>5,596</u>	<u>27,970</u>	<u>12,548</u>	
Deficit arising on revaluation of leasehold land and buildings				<u>(1,604)</u>
Profit from operations				<u>44,510</u>
	<b>Hong Kong</b> <i>HK\$'000</i>	<b>The PRC</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Carrying amount of segment assets	<u>115,369</u>	<u>26,373</u>	<u>3,083</u>	<u>144,825</u>
Additions to property, plant and equipment	<u>2,990</u>	<u>–</u>	<u>–</u>	<u>2,990</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 3. SEGMENTAL INFORMATION (Continued)

#### GEOGRAPHICAL SEGMENTS (Continued)

2000

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>The PRC</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
REVENUE				
Turnover	48,754	24,154	15,031	87,939
Other revenue	4,612	–	952	5,564
	<u>53,366</u>	<u>24,154</u>	<u>15,983</u>	<u>93,503</u>
Total revenue				
Profit from operations	<u>12,026</u>	<u>9,504</u>	<u>8,136</u>	<u>29,666</u>
	<b>Hong Kong</b> <i>HK\$'000</i>	<b>The PRC</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Carrying amount of segment assets	<u>53,402</u>	<u>17,142</u>	<u>–</u>	<u>70,544</u>
Additions to property, plant and equipment	<u>1,512</u>	<u>–</u>	<u>–</u>	<u>1,512</u>

### 4. TURNOVER

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
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An analysis of turnover is as follows:

Film distribution and licensing income	74,526	50,343
Film processing income	31,620	34,026
Advertising and promotional service income	23,531	3,570
	<u>129,677</u>	<u>87,939</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **5. PROFIT FROM OPERATIONS**

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit from operations has been arrived at after charging:		
Directors' remuneration ( <i>Note 7</i> )	<b>2,580</b>	1,400
Contributions to retirement benefits scheme	<b>462</b>	313
Other staff costs	<b>11,383</b>	9,549
	<hr/>	<hr/>
Total staff costs	<b>14,425</b>	11,262
	<hr/>	<hr/>
Allowance for bad and doubtful debts	–	3,505
Auditors' remuneration	<b>799</b>	219
Depreciation and amortisation		
– owned assets	<b>725</b>	506
– asset held under a hire purchase contract	<b>72</b>	203
and after crediting:		
Interest income	<b>379</b>	319
Rental income in respect of premises, net of negligible outgoings	<b>–</b>	110
	<hr/> <hr/>	<hr/> <hr/>

### **6. FINANCE COSTS**

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	<b>285</b>	362
Obligations under a hire purchase contract	<b>32</b>	32
	<hr/>	<hr/>
	<b>317</b>	394
Bank borrowings not wholly repayable within five years	<b>44</b>	193
	<hr/>	<hr/>
	<b>361</b>	587
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## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 7. DIRECTORS' AND EMPLOYEES REMUNERATION

The emoluments of the directors and the five highest paid individuals are summarised as follows:

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Directors' remuneration</b>		
Fees		
– Executive directors	<b>1,000</b>	–
– Independent non-executive directors	<b>160</b>	–
	<b>1,160</b>	–
Other emoluments		
– Executive directors		
Salaries and allowances	<b>1,357</b>	1,354
Retirement benefits scheme	<b>63</b>	46
	<b>2,580</b>	1,400

The emoluments of each of the directors were less than HK\$1,000,000 for both years.

### **(b) Employees' emoluments**

The five highest paid individuals in the Group included four directors (2000: three directors) of the Company, details of whose emoluments are set out above. The emoluments of the remaining individuals were as follows:

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Salaries and allowances	<b>274</b>	530
Retirement benefits scheme contributions	<b>13</b>	25
	<b>287</b>	555

The emoluments of each of the five highest paid employees for both years were less than HK\$1,000,000.

During two years ended 31st December, 2000 and 31 December, 2001, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **8. TAXATION**

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The charge comprises:		
Hong Kong Profits Tax		
Provision for the year	<b>3,001</b>	3,125
Overprovision in prior years	–	(1)
	<u><b>3,001</b></u>	<u>3,124</u>

Hong Kong Profits Tax was calculated at 16% on the estimated assessable profits for both years.

Certain income was earned during the year, which in the opinion of the directors, was not taxable in any of the jurisdictions that the Group operates.

Details of unprovided deferred taxation are set out in note 25.

### **9. DIVIDENDS**

The directors have resolved to recommend at the 2002 annual general meeting that a final dividend of HK\$0.035 per share (2000: nil per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 21st May, 2002.

The final dividend proposed for the year was calculated with reference to 300,000,000 shares in issue as at the date of this report.

For the year ended 31st December, 2000, dividends of HK\$2,600,000 were paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as described in note 1 above.

### **10. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$41,148,000 (2000: HK\$25,955,000) and on the weighted average number of 249,041,095 (2000: 225,000,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation had been completed on 1st January, 2000.

The calculation of the fully diluted earnings per share on the net profit for the year of HK\$41,148,000 and on the weighted average number of 253,902,407 shares issued and issuable, calculated on the assumption that all of the outstanding share options had been exercised in full on their date of grant.

The Company had no dilutive potential ordinary shares in 2000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

(Continued)

### 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2001	7,683	3,766	1,589	475	13,567	27,080
Additions	–	377	34	–	2,579	2,990
Deficit on revaluation	(3,183)	–	–	–	–	(3,183)
<b>At 31st December, 2001</b>	<b>4,500</b>	<b>4,143</b>	<b>1,623</b>	<b>475</b>	<b>16,146</b>	<b>26,887</b>
Comprising:						
At cost	–	4,143	1,623	475	16,146	22,387
At valuation	4,500	–	–	–	–	4,500
	4,500	4,143	1,623	475	16,146	26,887
DEPRECIATION AND AMORTISATION						
At 1st January, 2001	1,493	3,579	1,480	237	13,210	19,999
Provided for the year	171	144	33	71	378	797
Eliminated on revaluation	(1,579)	–	–	–	–	(1,579)
<b>At 31st December, 2001</b>	<b>85</b>	<b>3,723</b>	<b>1,513</b>	<b>308</b>	<b>13,588</b>	<b>19,217</b>
NET BOOK VALUES						
<b>At 31st December, 2001</b>	<b>4,415</b>	<b>420</b>	<b>110</b>	<b>167</b>	<b>2,558</b>	<b>7,670</b>
At 31st December, 2000	6,190	187	109	238	357	7,081

The Group's leasehold land and buildings was revalued at 30th June, 2001 by Vigers Hong Kong Limited, an independent firm of qualified professional valuers, on an open market value basis. The deficit arising on revaluation of HK\$1,604,000 has been charged to the consolidated income statement for the year ended 31st December, 2001. In the opinion of directors, the carrying value of the Group's leasehold land and buildings as at 31st December, 2001 is not significantly different to the revalued amount at 30th June, 2001.

The leasehold land and buildings of the Group are situated in Hong Kong and are held under medium term leases.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **11. PROPERTY, PLANT AND EQUIPMENT (Continued)**

At 31st December, 2001, had all of the land and buildings of the Group been carried at historical cost less accumulated depreciation and amortisation, their carrying amount would have been approximately HK\$6,018,000.

The motor vehicle of the Group was previously held under a hire purchase contract. The obligations were fully repaid during the year.

The Company had no property, plant and equipment at the balance sheet date.

### **12. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>
	<i>HK\$'000</i>
Unlisted shares	44,172
Amounts due from subsidiaries	20,699
	<hr/>
	64,871
	<hr/> <hr/>

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of Grimston Limited and its subsidiaries at the time these subsidiaries were acquired by the Company pursuant to the Group Reorganisation.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amounts are not repayable within one year from the balance sheet date and the amounts are therefore shown in the balance sheet as non-current.

Details of the Company's subsidiaries at 31st December, 2001 are set out in note 34.

### **13. INVESTMENT**

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost		
Unlisted equity security in Hong Kong	<u>1,000</u>	<u>—</u>

The directors consider the unlisted investment is worth at least its carrying value.



## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **14. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Raw materials	1,610	1,637
Work in progress	38	66
	<u>1,648</u>	<u>1,703</u>

All the inventories are stated at cost.

### **15. TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK\$32,206,000 (2000: HK\$16,416,000) and their aged analysis is as follows:

	<b>2001</b>	<b>2000</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
0 – 90 days	21,513	7,189
91- 180 days	3,548	5,675
181 – 365 days	6,409	3,552
1 – 2 years	736	–
	<u>32,206</u>	<u>16,416</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 16. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

	THE GROUP		
	As at		Maximum
	31st December,		amount
	2001	2000	outstanding
	31st December,	31st December,	during the
	2001	2000	year ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
東影影視出品有限公司 (“Tung Ying”) ( <i>Note a</i> )	5,620	5,442	16,135
Big Bright Investment Company Limited ( <i>Note b</i> )	–	2,430	2,430
Mandarin Recording Studio Limited ( <i>Note b</i> )	–	1,578	1,578
Mandarin Films Holdings Limited ( <i>Note b</i> )	–	1,471	1,471
	5,620	10,921	
	5,620	10,921	

*Notes:*

- a. A brother of Mr. Wong Pak Ming (“Mr. Wong”) has a beneficial interest in this company.
- b. Mr. Wong has interests in these companies as directors and/or substantial shareholders.

The amounts are unsecured, non-interest bearing, and except for the amount due from Tung Ying, all other amounts were fully settled during the year.

### 17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$5,767,000 (2000: HK\$2,974,000) and their aged analysis is as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	5,649	2,951
91- 180 days	118	–
Over 180 years	–	23
	5,767	2,974
	5,767	2,974

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 18. AMOUNTS DUE TO RELATED COMPANIES

<b>Name of company</b>	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Big Mandarin Cinema Circuit Company Limited	–	209
Pure Project Limited	–	1,000
	–	1,209
	–	1,209

The amounts were unsecured, non-interest bearing and were fully settled during the year.

Mr. Wong has interest in all the above companies as directors and/or substantial shareholders.

### 19. AMOUNT DUE TO A DIRECTOR

The amount was due to Mr. Wong and was unsecured, non-interest bearing and was fully settled during the year.

### 20. OBLIGATIONS UNDER A HIRE PURCHASE CONTRACT

At 31st December, 2000, the maturity of the obligations under a hire purchase contract amounted to HK\$165,000 with present value of HK\$133,000, and the amounts were all within one year. During the current year, all of the obligations were repaid and released.

### 21. BANK BORROWINGS

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unsecured bank overdrafts	809	–
Secured bank borrowings, other than bank overdrafts	1,559	7,469
	2,368	7,469
	2,368	7,469
The maturity of the bank borrowings is as follows:		
Within one year	1,187	2,376
Between one and two years	391	190
Between two and five years	399	662
Over five years	391	4,241
	2,368	7,469
<i>Less: Amount due within one year shown under current liabilities</i>	<b>(1,187)</b>	<b>(2,376)</b>
Amount due after one year	<b>1,181</b>	<b>5,093</b>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 22. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
On date of incorporation	1,000,000	100
Increase during the period	999,000,000	99,900
	<u>1,000,000,000</u>	<u>100,000</u>
<b>At 31st December, 2001</b>		
<i>Issued and fully paid:</i>		
Allotted and issued nil paid on date of incorporation	1,000,000	–
Issue of shares on Group Reorganisation	1,000,000	100
Credited as fully paid from share premium account	–	100
Issue of shares by capitalisation of share premium account (the “Capitalisation Issue”)	223,000,000	22,300
Issue of shares for placing and public offer	75,000,000	7,500
	<u>300,000,000</u>	<u>30,000</u>
<b>At 31st December, 2001</b>		

The Company was incorporated on 9th May, 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued at nil paid on 31st May, 2001.

Pursuant to written resolutions of the sole shareholder of the Company on 21st August, 2001 to effect the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the following movements in the authorised and issued share capital of the Company took place:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an addition 999,000,000 shares of HK\$0.10 each to rank pari passu with the then existing shares in issue in all respects;
- (b) 1,000,000 shares of HK\$0.10 each were allotted and issued, credited as fully paid, to the shareholders of Grimston Limited as consideration for the acquisition of the entire share capital of Grimston Limited pursuant to the Group Reorganisation as stated in note 1;

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## **NOTES TO THE FINANCIAL STATEMENTS**

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*For the year ended 31st December, 2001*

(Continued)

### **22. SHARE CAPITAL** (Continued)

- (c) an amount of HK\$100,000 standing to the credit to the share premium account was capitalised and applied to pay up in full at par 1,000,000 shares of HK\$0.10 each which were allotted and issued at nil paid on 31st May, 2001;
- (d) conditional on the share premium account being credited as a result of the placing and public offer on 7th September, 2001, an amount of HK\$22,300,000 was capitalised and applied to pay up in full at par 223,000,000 shares of HK\$0.10 each for allotment and issue to the shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 21st August, 2001 (or as they may direct) in proportion to their then shareholdings in the Company.

On 7th September, 2001, by means of placing and public offer, the Company issued at total of 75,000,000 new ordinary shares of HK\$0.10 each at the price of HK\$0.09 per share. The proceeds are to be used to expand the film production business in China, to acquire film processing machinery and to provide additional working capital for the Group.

All the shares which were issued during the period rank *pari passu* with the then existing shares in all respects.

The share capital as at 31st December, 2000 represented the aggregate amount of the nominal values of the combined issued share capital of the companies now comprising the Group prior to the Group Reorganisation.

### **23. SHARE OPTION SCHEME**

At 31st December, 2001, there were share options in respect of a total of 30,000,000 shares granted to those eligible employees at the exercise price of HK\$0.56 per share, which are under expiry to 20th August, 2011. The exercise period is from 11th April, 2002 to 20th August, 2011. No share options were exercised during the period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

(Continued)

### 24. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Retained profits (deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
At 1st January, 2000	–	–	7,506	1,720	(7,159)	2,067
Net profit for the year	–	–	–	–	25,955	25,955
Dividends	–	–	–	–	(2,600)	(2,600)
At 31st December, 2000	–	–	7,506	1,720	16,196	25,422
Premium arising on issue of shares	60,000	–	–	–	–	60,000
Expenses incurred in connection with the issue of shares	(16,717)	–	–	–	–	(16,717)
Capitalisation	(22,400)	–	–	–	–	(22,400)
Surplus arising from Group Reorganisation	–	–	10,420	–	–	10,420
Net profit for the year	–	–	–	–	41,148	41,148
<b>At 31st December, 2001</b>	<b>20,883</b>	<b>–</b>	<b>17,926</b>	<b>1,720</b>	<b>57,344</b>	<b>97,873</b>
<b>THE COMPANY</b>						
Premium arising on issues of shares	60,000	–	–	–	–	60,000
Expenses incurred in connection with the issue of shares	(16,717)	–	–	–	–	(16,717)
Capitalisation	(22,400)	–	–	–	–	(22,400)
Contributed surplus arising from Group Reorganisation	–	44,072	–	–	–	44,072
Loss for the year	–	–	–	–	(25)	(25)
<b>At 31st December, 2001</b>	<b>20,883</b>	<b>44,072</b>	<b>–</b>	<b>–</b>	<b>(25)</b>	<b>64,930</b>

The special reserve of the Group that arose during the year ended 31st December, 2001 represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the Group Reorganisation.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **24. RESERVES** (Continued)

The special reserve of the Group at 1st January, 2000 represents the consideration for the acquisition of additional interests in jointly controlled entities which became wholly owned subsidiaries by the substantial shareholder of the Company prior to the Group Reorganisation.

The contributed surplus of the Company represents the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange thereof.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders as at 31st December, 2001 represented by its contributed surplus, amounted to HK\$44,072,000.

### **25. DEFERRED TAXATION**

At the balance sheet date, the major components of unprovided deferred taxation in the financial statements are as follows:

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Tax effect of timing differences attributable to:		
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	<b>(553)</b>	(162)
Unutilised tax losses	—	10
	<b><u>(553)</u></b>	<b><u>(152)</u></b>

The deferred taxation liability is not provided for in the financial statements as the amount involved is insignificant.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **25. DEFERRED TAXATION** (Continued)

The major components of the unprovided deferred taxation charge for the year are as follows:

	<b>2001</b> <b>HK\$'000</b>	<b>2000</b> <b>HK\$'000</b>
Tax effect of timing differences attributable to:		
Differences between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	<b>(391)</b>	31
Tax losses utilised	<b>(10)</b>	(1,810)
	<b>(401)</b>	(1,779)

The Company had no significant deferred tax assets or liabilities at the balance sheet date.

### **26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>2001</b> <b>HK\$'000</b>	<b>2000</b> <b>HK\$'000</b>
Profit before taxation	<b>44,149</b>	29,079
Interest expenses	<b>361</b>	587
Interest income	<b>(379)</b>	(319)
Provision for bad and doubtful debts	–	3,505
Depreciation and amortisation	<b>797</b>	709
Deficit on revaluation of leasehold land and buildings	<b>1,604</b>	–
(Increase) decrease in film rights and production in progress	<b>(26,774)</b>	1,508
Decrease (increase) in inventories	<b>55</b>	(148)
Increase in trade and other receivables	<b>(18,733)</b>	(14,677)
Decrease (increase) in amounts due from related companies	<b>5,301</b>	(4,676)
Increase (decrease) in trade and other payables	<b>5,590</b>	(3,286)
Decrease in amounts due to related companies	<b>(1,209)</b>	(4,967)
Net cash inflow from operating activities	<b>10,762</b>	7,315



## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2001*

(Continued)

### 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Share capital and premium</b>	<b>Obligations under a hire purchase contract</b>	<b>Bank borrowings</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2000	10,520	266	12,032
Bank loan raised	–	–	900
Repayments	–	(133)	(5,463)
	10,520	133	7,469
At 31st December, 2000	10,520	133	7,469
Proceeds from issue of shares for placing and public offer	67,500	–	–
Expenses incurred in connection with the issue of shares	(16,717)	–	–
Surplus arising from Group Reorganisation	(10,420)	–	–
Repayments	–	(133)	(5,910)
	50,883	–	1,559
<b>At 31st December, 2001</b>	<b><u>50,883</u></b>	<b><u>–</u></b>	<b><u>1,559</u></b>

### 28. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Premises	<u>720</u>	<u>1,015</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	363	–
In the second to fifth year inclusive	–	1,776
	<u>363</u>	<u>1,776</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **29. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>—</u>	<u>944</u>

The Company had no capital commitments for both years.

### **30. OTHER COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Expenditure contracted for but not provided in the financial statements in respect of:		
Purchase of film rights	<b>3,458</b>	—
Artists' fee	<b>2,692</b>	3,870
	<u><b>6,150</b></u>	<u>3,870</u>

The Company had no other commitments for both years.

### **31. PLEDGE OF ASSETS**

The Group had pledged its leasehold land and buildings at 31st December, 2001 with an aggregate carrying value of HK\$4,415,000 (2000: HK\$6,190,000) for banking facilities granted to the Group.

### **32. RETIREMENT BENEFITS SCHEME**

The Group operates a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. The cost charged to the income statement represents contribution payable to the scheme by the Group at the rates specified in the rules of the scheme.

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December, 2000 and is funded by contributions from the employer and employees according to the provisions of the MPF Ordinance.

At the balance sheet date, there were no significant forfeited contributions, which arose when employees left the scheme before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in future years.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### **33. RELATED PARTY TRANSACTIONS**

During year, the Group entered into the following significant transactions with related parties:

<b>Name of related party</b>	<b>Nature of transaction</b>	<i>Notes</i>	<b>2001</b> <b>HK\$'000</b>	<b>2000</b> <b>HK\$'000</b>
Big Mandarin Cinema Circuit Limited ("Big Mandarin")	Management fee income	<i>(i)</i>	–	1,820
	Film distribution income	<i>(ii)</i>	–	2,264
Pure Project Limited	Rental expenses	<i>(iii)</i>	<b>720</b>	540
Mandarin Recording Studio Limited	Management fee expenses	<i>(iv)</i>	<b>48</b>	48
	Rental expenses	<i>(v)</i>	<b>156</b>	39
Tung Ying	Agency fees	<i>(vi)</i>	<b>971</b>	1,776

*Notes:*

- (i) The management fee is charged by reference to the actual cost incurred. Mr. Wong, a director of the company, held a 20% shareholding interest in Big Mandarin up to 20th April, 2000. Big Mandarin is no longer a related party since Mr. Wong ceased to hold any beneficial interest in Big Mandarin on 20th April, 2000.
- (ii) The Group received film distribution income from Big Mandarin which represented the share of box office receipts by the Group for those films arranged for release in theatres by Big Mandarin. The Group shared 40% – 50% of the box office receipts.
- (iii) The rentals are agreed after negotiation between the Group and Pure Project Limited, in which Mr. Wong held a beneficial interest, and on the basis of estimated market value as determined by the directors of the Company.
- (iv) The management fees are charged by reference to the actual cost incurred. Mr. Wong held beneficial interests in Mandarin Films Holding Limited and Mandarin Recording Studio Limited.
- (v) The rentals are agreed after negotiation between the Group and Mandarin Recording Studio Limited, in which Mr. Wong held a beneficial interest, and on the basis of estimated market value.
- (vi) The agency fees are charged by Tung Ying at the agreed terms of 10% (2000: 20%) of the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.

In the opinion of the directors, the above related party transactions are on normal commercial terms and in the ordinary course of business.

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31st December, 2001*

(Continued)

### 34. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by Company %	Principal activities
Chili Advertising & Promotions Limited	Hong Kong	HK\$10,000 ordinary shares	100	Provision of promotional services for films
Grimston Limited	British Virgin Islands	US\$10,000 ordinary shares	100	Investment holding
Mandarin Films Limited	Hong Kong	HK\$100 ordinary shares	100	Production of films
Mandarin Films Distribution Company Limited	Hong Kong	HK\$20 ordinary shares HK\$10,000,000 non-voting deferred shares ( <i>note</i> )	100	Distribution of films produced or purchased by the Group
Mandarin Laboratory Limited	Hong Kong	HK\$10,000	100	Distribution of films produced by third parties
Mandarin Laboratory (International) Limited	Hong Kong	HK\$1,000,000	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK\$500,000	100	Production of films
Media Elite Enterprises Limited	British Virgin Islands	US\$10,000	100	Distribution of films produced or purchased by the Group
Walsbo Limited	Hong Kong	HK\$2 ordinary shares HK\$9,800 non-voting deferred shares ( <i>note</i> )	100	Investment holding

*Note:* The deferred shares practically carry no rights to dividends or to receive notice of attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities during the period and at the end of the period.

The Company directly holds the interest in Grimston Limited. All other interests shown above are indirectly held.