

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention.

In the current year, the Group has adopted the new or revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001. Except for the effect of adopting SSAP 31 as summarised in more detail in note 1(k) to the account, the adoption of these new SSAPs has no material effect on the Group's results. Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are companies in which the Group controls more than half of the voting power or holds more than half of the issued share capital or controls the composition of the board of directors or has power to govern the financial and operating policies.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Jointly controlled entity

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

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

(d) Associated companies

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

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

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Investments in securities

(i) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair values. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

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

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) **Investment properties** *(continued)*

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

(g) **Properties under development**

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

No depreciation is provided for properties under development.

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

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

It is the Group's policy to value leasehold land and buildings on an individual basis in each year by independent valuers. The valuations are mainly on an open market basis related to individual properties whereas certain leasehold land and buildings situated in Hong Kong are valued on a depreciated replacement cost basis. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Other tangible fixed assets, comprising furniture, fixtures and equipment, plant and machinery and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

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

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(i) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties and properties under development is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Assets under leases

(i) Finance leases

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

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

(ii) Operating leases

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

(k) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entity and associated companies at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st April 2001 was written off against reserves. In respect of goodwill previously written off against reserves, the Group has applied the transitional provision 1(a) in SSAP 30 and the relevant goodwill previously written off against reserves has not been restated.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Goodwill *(continued)*

Under SSAP 31 and Interpretation No.13, "Goodwill-continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves", the carrying amount of goodwill (including goodwill previously been taken directly to reserves and not restated in accordance with the transitional provision in SSAP 30), has to be reviewed if there is an indication of impairment, and any impairment has to be dealt with in the consolidated profit and loss account in the year when the impairment is determined to have occurred.

As of 31st March 2002, the total amount of goodwill arising from previous acquisitions of business and charged to reserves under the Group's then accounting policy was HK\$9,925,000. The directors consider that the goodwill had been impaired as at that date to the extent of HK\$9,798,000 and accordingly adjustments have been made in the consolidated profit and loss account for the respective periods in which the impairment is considered to have occurred. The effect of this change in accounting policy had been applied retrospectively, giving rise to a restatement of the consolidated profit and loss account for the year ended 31st March 2001 for an impairment loss for goodwill of HK\$9,798,000. The Group's accumulated losses as at 1st April 2001 has increased by HK\$9,798,000 representing the cumulative effects of this change in accounting policy at that date.

(l) Film and sub-licensing rights

(i) Film rights

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

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

(ii) Films in progress

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

(iii) Film sub-licensing rights and deposits

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

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

(iv) In the opinion of the directors of the Company, the film sub-licensing rights and deposits are non-current in nature and therefore have been reclassified from current assets to non-current assets, which has been applied retrospectively in the prior year. Certain components of the consolidated cash flow statement has been restated accordingly.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

- (v) At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that assets included in film rights, films in progress, film sub-licensing rights and deposits are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss accounts.

(m) **Inventories**

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

(n) **Accounts receivable**

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

(o) **Deferred taxation**

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

(p) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, bank overdrafts and short term bank loans repayable within three months.

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) **Borrowing costs**

Borrowing costs that are directly attributable to the construction work of the properties under development/leasehold land and buildings are capitalised as part of the cost of these assets up to the time when such assets are put into use.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) **Translation of foreign currencies**

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

The balance sheet of subsidiaries, jointly controlled entity and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(s) **Retirement benefit costs**

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

(t) **Revenue recognition**

- (i) Revenue from the distribution of films and programs in audio visual product formats is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed;

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition *(continued)*

- (ii) Income from the licensing and sub-licensing of audio visual products, video features and TV rights is recognised upon delivery of the pre-recorded audio visual products and the materials for video features including the master tapes to the customers;
- (iii) Film exhibition income is recognised when the right to receive payment is established;
- (iv) Internet and related service fee income is recognised when the relevant services are rendered;
- (v) Rental income is recognised on an accrual basis;
- (vi) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable;
- (vii) Commission income from royalty rights is recognised on an accrual basis.

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format.

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

Unallocated costs represent corporate expenses, deficit arising on revaluation of land and buildings and impairment loss for goodwill. Unallocated income represents machinery rental from associated companies, gain on disposal of a subsidiary and disposal gain on investment securities. Segment assets comprise primarily of fixed assets, film rights and films in progress, film sub-licensing rights and deposits, inventories, accounts receivable, prepayment, deposits and other receivables and operating cash. Unallocated assets mainly represent certain leasehold land and building situated in Hong Kong and tax recoverable. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, film rights, perpetual and non-perpetual film rights and film sub-licensing rights (notes 10, 15 and 16).

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Distribution of films and programs in audio visual product formats	132,112	161,985
Film exhibition and film rights sub-licensing	30,672	40,244
Provision of internet and related services	671	2,672
Others	789	847
	164,244	205,748
Other revenues		
Rental income from investment properties	710	995
Rental income from land and buildings and sub-letting of properties and plant and machinery	12,760	13,996
Commission income from royalty rights	443	—
Interest income	154	4,512
	14,067	19,503
Total revenues	178,311	225,251

Primary report format-business segments

The Group is organised into four main business segments:

- Distribution of films and programs in audio visual product formats
- Film exhibition and film rights sub-licensing
- Provision of internet and related services
- Processing of audio visual products

Other operations of the Group mainly comprise holding of investment properties, which are of an insufficient size to be reported separately.

There are no sales or other transactions between the business segments.

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary report format-business segments (continued)

An analysis of the Group's turnover and contribution to operating (loss)/profit for the year by each principal activity is as follows:

	2002 HK\$'000					Group
	Distribution of films and programs in audio visual product formats	Film exhibition and film rights sub licensing	Provision of internet and related services	Processing of audio visual products	Others	
Revenues	132,112	30,672	671	—	789	164,244
Segment results before impairments	(17,699)	(21,128)	(793)	—	(6,561)	(46,181)
Impairment of film rights, films sub-licensing rights and deposits	(31,697)	(36,231)	—	—	—	(67,928)
Segment results	(49,396)	(57,359)	(793)	—	(6,561)	(114,109)
Unallocated income						35,918
Unallocated costs						(1,586)
Operating loss						(79,777)
Finance costs						(2,429)
Share of losses less profits of:						
Jointly controlled entity	(3,503)	—	—	—	—	(3,503)
Associated companies	—	(5,399)	(7,886)	(681)	—	(13,966)
Loss before taxation						(99,675)
Taxation						(88)
Loss attributable to shareholders						(99,763)
Segment assets	82,843	19,071	6,539	—	2,125	110,578
Investment in jointly controlled entity	—	—	—	—	—	—
Investments in associated companies	—	24,478	12,120	58,091	—	94,689
Unallocated assets						163,276
Total assets						368,543
Segment liabilities	16,639	8,913	95	—	5,042	30,689
Unallocated liabilities						66,193
Total liabilities						96,882
Capital expenditure	39,632	28,246	—	34	27,075	94,987
Depreciation	6,946	83	—	217	7,827	15,073
Amortisation charge	43,124	27,044	—	—	—	70,168

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary report format-business segments (continued)

	2001 (As restated)					Group
	HK\$'000					
	Distribution of films and programs in audio visual product formats	Film exhibition and film rights sub licensing	Provision of internet and related services	Processing of audio visual products	Others	
Revenues	161,985	40,244	2,672	—	847	205,748
Segment results before impairments	16,209	(11,041)	(496)	—	(18,564)	(13,892)
Impairment of film rights, films sub-licensing rights and deposits	(1,800)	(2,200)	—	—	—	(4,000)
Segment results	14,409	(13,241)	(496)	—	(18,564)	(17,892)
Unallocated income						34,427
Unallocated costs						(10,409)
Operating profit						6,126
Finance costs						(4,003)
Share of losses less profits of:						
Jointly controlled entity	(1,926)	—	—	—	—	(1,926)
Associated companies	—	—	(8,487)	923	—	(7,564)
Loss before taxation						(7,367)
Taxation						(1,233)
Loss attributable to shareholders						(8,600)
Segment assets	124,085	80,149	6,372	—	11,413	222,019
Investment in jointly controlled entity	2,520	—	—	—	—	2,520
Investments in associated companies	—	—	17,736	59,195	—	76,931
Unallocated assets						157,560
Total assets						459,030
Segment liabilities	8,884	14,103	43	—	5,536	28,566
Unallocated liabilities						54,004
Total liabilities						82,570
Capital expenditure	42,704	29,349	117	—	56,029	128,199
Depreciation	6,709	90	224	—	8,706	15,729
Amortisation charge	24,933	33,794	—	—	—	58,727

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

NOTES TO THE ACCOUNTS

3 OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after crediting and charging the following:

Crediting

	2002 HK\$'000	2001 HK\$'000
Net gain on disposal of investment securities #	5,677	—
Gain on disposal of interest in a subsidiary (note 24(d)) #	20,960	—
Gains on dilution of interests in associated companies, net of premium on acquisition of additional interests in the associated companies prior to the dilution #	—	16,193
Net rental income from investment properties	710	995
Net rental income from land and buildings and sub-letting of properties and plant and machinery	12,760	13,996

Charging

Amortisation of film rights	16,189	31,665
Amortisation of perpetual and non-perpetual film rights	10,855	1,300
Amortisation of film sub-licensing rights	43,124	25,762
Auditors' remuneration	695	842
Deficit arising on revaluation of land and buildings not covered by previous revaluation surplus	1,586	1,390
Depreciation:		
— owned fixed assets	14,995	15,578
— leased fixed assets	78	151
Impairment of films rights and films in progress	21,163	—
Impairment of perpetual and non-perpetual film rights	15,068	2,200
Impairment of film sub-licensing rights and deposits	31,697	1,800
Impairment loss on film rights	67,928	4,000
Loss on disposal of fixed assets	1,332	6
Net exchange losses	62	118
Operating lease rentals in respect of land and buildings	3,541	3,019
Provision for irrecoverable accounts receivables and prepayments, deposits and other receivables *	13,283	843
Provision for amount due from an associated company *	5,565	—
Provision for obsolete inventories *	152	450
Staff costs (including directors' emoluments)	25,119	24,805
Unrealised loss on other investments	—	63

including in other income

* including in other expenses

NOTES TO THE ACCOUNTS

4 FINANCE COSTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts	3,825	3,892
Interest on loan from an associated company	—	82
Interest element of finance leases	196	29
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Total borrowing costs incurred	4,021	4,003
Less: amount capitalised in leasehold land and buildings/properties under development	(1,592)	—
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	2,429	4,003
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The capitalisation rate applied to funds borrowed generally and used for the properties under development is between 5.125 per cent. and 8.50 per cent. per annum.

5 TAXATION

No provision for Hong Kong and overseas profits tax has been made as there was no estimated assessable profit for the year. No provision for Hong Kong and overseas tax was made in last year as there were sufficient tax losses carried forward at the balance sheet date.

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

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Share of taxation attributable to:		
Associated company	88	1,233
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NOTES TO THE ACCOUNTS

5 TAXATION (continued)

Deferred tax assets/(liabilities) for the year have not been recognised/(provided for) in the consolidated profit and loss account in respect of the following:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	1,540	(5,156)
Tax losses	12,367	881
	<u>13,907</u>	<u>(4,275)</u>

At 31st March 2002, the net potential deferred tax asset not recognised in the accounts amounted to:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	(6,106)	(7,646)
Tax losses	29,304	16,937
	<u>23,198</u>	<u>9,291</u>

6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$168,876,000 (2001: HK\$172,000).

7 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$99,763,000 (2001: HK\$8,600,000) and the weighted average of 771,058,527 (2001: 771,124,200) shares in issue during the year.

NOTES TO THE ACCOUNTS

7 LOSS PER SHARE *(continued)*

The outstanding share options as at 31st March 2002 have not been included in the calculation of the diluted loss per share as the exercise of these share options would have an anti-dilutive effect.

The adjustment to comparative basic loss per share, arising from the change in accounting policy shown in note 1(k) above, is as follows:

	<i>HK cents</i>
Reconciliation of 2001 loss per share:	
Reported earnings per share before adjustments	0.2
Adjustment arising from the adoption of SSAP 31	(1.3)
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Restated loss per share	(1.1)
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8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	600	250
Other emoluments		
— basic salaries, allowances and other benefits in kind	5,145	3,943
Pension contributions	126	191
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	5,871	4,384
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NOTES TO THE ACCOUNTS

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Directors' fees disclosed above include HK\$300,000 (2001: HK\$250,000) paid to independent non-executive directors.

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

As a result of the bonus issue of shares of the Company in 2001, the exercise price of the outstanding Options of the Company was adjusted to HK\$1.1267 per share and the total number of the outstanding Options was also adjusted to 42,000,000. No such Options were exercised during the year.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
HK\$ Nil-HK\$1,000,000	*4	4
HK\$1,000,001-HK\$1,500,000	2	1
HK\$2,000,001-HK\$2,500,000	1	1
	<u>7</u>	<u>6</u>

* Including two independent non-executive directors

No directors have waived any of their emoluments in respect of the years ended 31st March 2002 and 2001.

NOTES TO THE ACCOUNTS

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: three) individuals during the year are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	1,913	2,319
Pension contributions	67	91
	<u>1,980</u>	<u>2,410</u>

The emoluments fell within the following bands:

	Number of individuals	
	2002	2001
HK\$ Nil-HK\$1,000,000	1	2
HK\$1,000,001-HK\$1,500,000	1	1
	<u>2</u>	<u>3</u>

During the years ended 31st March 2002 and 31st March 2001, no emoluments have been paid by the Group to the three (2001: two) directors or the two (2001: three) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

NOTES TO THE ACCOUNTS

9 RETIREMENT BENEFIT COSTS

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

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Gross employer's contributions	283	702
<i>Less:</i> Forfeited contribution and their accrued interest utilised to offset employer's contribution for the year	(70)	(55)
Net employer's contributions charged to profit and loss account	<u>213</u>	<u>647</u>

As at 31st March 2002, forfeited contributions totalling HK\$70,000 (2001: HK\$55,000) were utilised during the year leaving HK\$31,000 (2001: HK\$61,000) available at the year-end to reduce future contribution.

Contribution totalling HK\$99,000 (2001: HK\$165,000) were payable to the fund at the year-end and are included in accounts payable.

NOTES TO THE ACCOUNTS

9 RETIREMENT BENEFIT COSTS *(continued)*

The Group also provides a mandatory provident fund scheme (“MPF Scheme”) for its staff in Hong Kong in compliance with the requirement under the Hong Kong Mandatory Provident Fund Scheme Ordinance (“MPF Scheme Ordinance”). In addition to the mandatory contribution, the Group, in respect of those employees who joined the Group on or before 30th November 2000 or who have been employed by the Group for more than 3 years, makes a voluntary contribution, the amount of which is equal to 5 per cent. of the employees’ basic salary less the amount of mandatory contribution which the employer has made for that employee. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions. The accrued benefits of an employee, which are derived from the Group’s mandatory and voluntary contributions under the MPF Scheme can be used to offset any long service payments or severance payments payable to that employee. The total contribution to the MPF Scheme paid by the Group for the year amounted to HK\$600,000 (2001: HK\$235,000).

With effect from 1st October 2001, the contribution policy of both the Retirement Scheme and the MPF Scheme have been changed and both the employer and the employees are required to contribute 5 per cent. of the basic salary of the employees up to a maximum of HK\$1,000 per employee per month.

NOTES TO THE ACCOUNTS

10 FIXED ASSETS

	Group							Total HK\$'000
	Investment properties HK\$'000	Properties under development HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	
	Cost or valuation:							
At 1st April 2001	21,154	89,149	24,696	4,677	5,365	81,607	4,852	231,500
Additions, at cost	—	22,660	—	108	4,873	117	371	28,129
Adjustment on revaluation	(4,124)	—	(2,987)	—	—	—	—	(7,111)
Transfers	—	(111,809)	106,011	5,775	23	—	—	—
Disposals	—	—	—	(4,597)	—	(24,067)	—	(28,664)
Disposal of a subsidiary	—	—	—	(79)	(222)	—	—	(301)
At 31st March 2002	<u>17,030</u>	<u>—</u>	<u>127,720</u>	<u>5,884</u>	<u>10,039</u>	<u>57,657</u>	<u>5,223</u>	<u>223,553</u>
Accumulated depreciation								
At 1st April 2001	—	—	—	2,820	3,577	40,599	3,423	50,419
Charge for the year	—	—	572	472	1,090	12,391	548	15,073
Adjustment on revaluation	—	—	(572)	—	—	—	—	(572)
Disposals	—	—	—	(3,265)	—	(14,439)	—	(17,704)
Disposal of a subsidiary	—	—	—	(23)	(153)	—	—	(176)
At 31st March 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>4,514</u>	<u>38,551</u>	<u>3,971</u>	<u>47,040</u>
Net book value								
As at 31st March 2002	<u>17,030</u>	<u>—</u>	<u>127,720</u>	<u>5,880</u>	<u>5,525</u>	<u>19,106</u>	<u>1,252</u>	<u>176,513</u>
As at 31st March 2001	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>1,857</u>	<u>1,788</u>	<u>41,008</u>	<u>1,429</u>	<u>181,081</u>

NOTES TO THE ACCOUNTS

10 FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st March 2002 of the above assets is as follows:

	Investment properties	Properties under development	Leasehold land and buildings	Leasehold improvements	Group Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	—	—	5,884	10,039	57,657	5,223	78,803
At 2002 professional valuation	17,030	—	127,720	—	—	—	—	144,750
	<u>17,030</u>	<u>—</u>	<u>127,720</u>	<u>5,884</u>	<u>10,039</u>	<u>57,657</u>	<u>5,223</u>	<u>223,553</u>

The analysis of the cost or valuation at 31st March 2001 of the above assets is as follows:

At cost	—	89,149	—	4,677	5,365	81,607	4,852	185,650
At 2001 professional valuation	21,154	—	24,696	—	—	—	—	45,850
	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>4,677</u>	<u>5,365</u>	<u>81,607</u>	<u>4,852</u>	<u>231,500</u>

Net book value of leased assets:

As at 31st March 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,775</u>	<u>—</u>	<u>309</u>	<u>4,084</u>
As at 31st March 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>107</u>	<u>—</u>	<u>1,075</u>	<u>1,182</u>

NOTES TO THE ACCOUNTS

10 FIXED ASSETS (continued)

The Group's interests in investment properties and leasehold land and buildings at their net book value are analysed as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	3,700	3,900
Leases of between 10 to 50 years	130,100	29,000
Outside Hong Kong, held on:		
Leases of over 50 years	10,500	12,500
Leases of between 10 to 50 years	450	450
	<u>144,750</u>	<u>45,850</u>

- (a) Except for certain leasehold land and buildings situated in Hong Kong was revalued at 31st March 2002 on the basis of its depreciated replacement cost, all other investment properties and leasehold land and buildings situated in both the PRC and Hong Kong were revalued on the basis of their open market value basis by Memfus Wong Surveyors Limited, an independent professional valuers in Hong Kong.
- (b) The leasehold land and buildings situated in Hong Kong are held by the Group under lease agreement dated 25th August 1997 with the Hong Kong Industrial Estates Corporation ("HKIEC") which restricts the usage of the premise to the manufacture of optical discs and related business. The Group's interests in the properties are transferable subject to the right of first refusal to purchase by HKIEC. Accordingly, the properties were valued by Memfus Wong Surveyors Limited on a depreciated replacement cost basis, which is the aggregate of the land value in its existing use and the estimated replacement costs of the buildings.
- (c) The carrying amount of leasehold land and buildings would have been HK\$142,546,000 (2001: HK\$37,371,000) had they been stated at cost less accumulated depreciation.

NOTES TO THE ACCOUNTS

10 FIXED ASSETS *(continued)*

- (d) At 31st March 2002, certain properties and plant and machinery with net book value of HK\$120,310,000 (2001: HK\$41,870,000) and HK\$17,783,000 (2001: HK\$14,439,000) respectively, were pledged as security for banking facilities granted to the Group (note 27).
- (e) The revaluation of investment properties and certain leasehold land and buildings of the Group does not constitute a timing differences for taxation purposes because management of the Group intends to operate these properties on a long-term basis.

11 SUBSIDIARIES

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost <i>(note (a))</i>	46,010	46,010
Amounts due from subsidiaries <i>(note (b))</i>	456,108	459,550
Amounts due to subsidiaries <i>(note (b))</i>	(34,510)	(35,835)
	<u>467,608</u>	<u>469,725</u>
Provision for amounts due from subsidiaries	(167,000)	—
	<u><u>300,608</u></u>	<u><u>469,725</u></u>

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

NOTES TO THE ACCOUNTS

12 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net liabilities (<i>note (a)</i>)	(17,170)	(13,667)
Amount due from a jointly controlled entity (<i>note (b)</i>)	17,170	16,187
	<u>—</u>	<u>2,520</u>

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

Particulars of the jointly controlled entity are as follows:

Name	Country of establishment	Principal activity and place of operation	Percentage of interest in ownership/voting power/loss sharing
廣州東亞音像製作有限公司 ("Guang Dong Tung Ah Audio Video Production Company Limited")	The PRC	Processing and distribution of audio visual products in the PRC	70%

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

NOTES TO THE ACCOUNTS

13 ASSOCIATED COMPANIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net (liabilities)/assets	(9,908)	31,030	—	—
Amounts due from associated companies (note (b))	118,455	54,366	—	—
Amounts due to associated companies	—	(172)	(5)	(2)
Provision for amounts due from associated companies	(11,358)	(5,793)	—	—
Loan from an associated company (note (c))	(2,500)	(2,500)	—	—
	<u>94,689</u>	<u>76,931</u>	<u>(5)</u>	<u>(2)</u>
Investment at cost:				
Listed shares in Hong Kong	3,682	3,682	—	—
Unlisted shares	30,042	30,037	—	—
	<u>33,724</u>	<u>33,719</u>	<u>—</u>	<u>—</u>
Market value of listed shares	<u>63,984</u>	<u>31,992</u>	<u>—</u>	<u>—</u>

- (a) Details of associated companies are set out in note 30 to the accounts.
- (b) The amounts due from/(to) associated companies are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date, except for an amount of HK\$2,991,000 (2001: HK\$8,955,000) due from an associated company which is interest bearing at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum.
- (c) The balance due is unsecured, interest bearing at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum and repayable on demand.

NOTES TO THE ACCOUNTS

14 INVESTMENTS IN SECURITIES AND OTHER INVESTMENTS

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities:		
Listed equity securities, at cost	3,000	—
Unlisted equity securities, at cost	23	9,689
Provision for diminution in value	—	(1,500)
	<u>3,023</u>	<u>8,189</u>
Market value of listed equity securities	<u>7,933</u>	<u>—</u>
Other investments:		
Equity securities listed in Hong Kong, at market value <i>(note (a))</i>	<u>—</u>	<u>20</u>

- (a) During the year of 2001, 124,200 ordinary shares (after the effect of the bonus issue of 2 new shares for every 1 share in October 2000) of the Company of HK\$0.1 each were repurchased and they were in the process of cancellation as at 31st March 2001. Such cancellation process was completed in September 2001.

NOTES TO THE ACCOUNTS

15 FILM RIGHTS AND FILMS IN PROGRESS

		Group		
	Film rights	Perpetual film	Films in	Total
	<i>HK\$'000</i>	<i>rights</i>	<i>progress</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At 1st April 2001	223,808	14,085	10,345	248,238
Additions	—	1,373	25,549	26,922
Transfers	8,538	—	(8,538)	—
Disposal of a subsidiary	(107,212)	—	(15,623)	(122,835)
	<u>125,134</u>	<u>15,458</u>	<u>11,733</u>	<u>152,325</u>
At 31st March 2002	----- 125,134	----- 15,458	----- 11,733	----- 152,325
Accumulated amortisation and impairment:				
At 1st April 2001	195,994	—	—	195,994
Charge for the year	16,189	8,654	—	24,843
Impairment loss	15,480	—	5,683	21,163
Disposal of a subsidiary	(106,501)	—	—	(106,501)
	<u>121,162</u>	<u>8,654</u>	<u>5,683</u>	<u>135,499</u>
At 31st March 2002	----- 121,162	----- 8,654	----- 5,683	----- 135,499
Net book value:				
At 31st March 2002	<u>3,972</u>	<u>6,804</u>	<u>6,050</u>	<u>16,826</u>
At 31st March 2001	<u>27,814</u>	<u>14,085</u>	<u>10,345</u>	<u>52,244</u>

NOTES TO THE ACCOUNTS

16 FILM SUB-LICENSING RIGHTS AND DEPOSITS

	Film royalty deposits <i>HK\$'000</i>	Group		Total <i>HK\$'000</i>
		Film sub- licensing rights <i>HK\$'000</i>	Non-perpetual film rights <i>HK\$'000</i>	
Cost:				
At 1st April 2001	15,301	45,006	17,390	77,697
Additions	7,422	31,238	1,276	39,936
Transfers	(2,478)	2,478	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March 2002	<u>20,245</u>	<u>78,722</u>	<u>18,666</u>	<u>117,633</u>
Accumulated amortisation and impairment:				
At 1st April 2001	—	—	—	—
Charge for the year	—	43,124	2,201	45,325
Impairment loss	6,245	25,452	15,068	46,765
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March 2002	<u>6,245</u>	<u>68,576</u>	<u>17,269</u>	<u>92,090</u>
Net book value:				
At 31st March 2002	<u>14,000</u>	<u>10,146</u>	<u>1,397</u>	<u>25,543</u>
At 31st March 2001	<u>15,301</u>	<u>45,006</u>	<u>17,390</u>	<u>77,697</u>

NOTES TO THE ACCOUNTS

17 INVENTORIES

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Blank tapes	265	370
Films and programs in audio visual product formats	16,371	17,488
Less: provision for obsolete inventories	<u>(4,865)</u>	<u>(4,865)</u>
	<u><u>11,771</u></u>	<u><u>12,993</u></u>

18 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 3 months	23,241	18,381
4 to 6 months	1,679	516
Over 6 months	<u>7,687</u>	<u>7,464</u>
	32,607	26,361
Less: provision for doubtful debts	<u>(10,872)</u>	<u>(5,574)</u>
	<u><u>21,735</u></u>	<u><u>20,787</u></u>

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

NOTES TO THE ACCOUNTS

19 ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 3 months	8,349	3,492
4 to 6 months	—	2,141
Over 6 months	1,256	2,785
	<u>9,605</u>	<u>8,418</u>

20 SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.1 each	
	No. of shares	
	(Thousands)	<i>HK\$'000</i>
At 31st March 2001 and 31st March 2002	<u>3,000,000</u>	<u>300,000</u>
	Issued and fully paid	
	Ordinary shares of HK\$0.1 each	
	No. of shares	
	(Thousands)	<i>HK\$'000</i>
At 1st April 2000	257,042	25,704
Issue of shares	514,083	51,408
At 31st March 2001	<u>771,125</u>	<u>77,112</u>
At 1st April 2001	771,125	77,112
Repurchase of shares (<i>note (a)</i>)	(125)	(12)
At 31st March 2002	<u>771,000</u>	<u>77,100</u>

- (a) During the year of 2001, 124,200 ordinary shares (after the effect of the bonus issue of 2 new shares for every 1 share in October 2000) of HK\$0.1 each were repurchased by one of its wholly-owned subsidiary and they were in the process of cancellation as at 31st March 2001. Such cancellation process was completed during the year.

NOTES TO THE ACCOUNTS

21 SHARE OPTIONS

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

As a result of the bonus issue of shares as at 13th October 2000, the exercise price of the outstanding Options of the Company granted on 28th January 2000 was adjusted from HK\$3.38 to HK\$1.1267 per share and the total number of outstanding Options increased from 20,000,000 to 60,000,000. The Share Options are exercisable at any time during the period from 19th August 2000 to 18th August 2002.

During the year ended 31st March 2002, 990,000 Options are lapsed and the number of Options outstanding as at 31st March 2002 are 59,010,000.

There were 930,000 Options lapsed subsequent to 31st March 2002.

NOTES TO THE ACCOUNTS

22 RESERVES

	Share premium HK\$'000	Share redemption reserve HK\$'000	Contributed surplus HK\$'000	Group Exchange difference HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2000	274,303	—	118,620	(306)	4,583	3,329	(48,088)	352,441
Capitalisation issue	(51,408)	—	—	—	—	—	—	(51,408)
Issuing expenses	(33)	—	—	—	—	—	—	(33)
Deficit on revaluation of properties (note (a))	—	—	—	—	(350)	(2,500)	—	(2,850)
Loss for the year (as restated)	—	—	—	—	—	—	(8,600)	(8,600)
Impairment of goodwill- Effect of adopting SSAP 31 (note 1(k))	—	—	9,798	—	—	—	—	9,798
At 31st March 2001 (as restated)	<u>222,862</u>	<u>—</u>	<u>128,418</u>	<u>(306)</u>	<u>4,233</u>	<u>829</u>	<u>(56,688)</u>	<u>299,348</u>
Representing:								
Company and subsidiaries	222,862	—	128,545	—	4,233	829	(33,891)	322,578
Jointly controlled entity	—	—	—	(253)	—	—	(14,495)	(14,748)
Associated companies	—	—	(127)	(53)	—	—	(8,302)	(8,482)
At 31st March 2001 (as restated)	<u>222,862</u>	<u>—</u>	<u>128,418</u>	<u>(306)</u>	<u>4,233</u>	<u>829</u>	<u>(56,688)</u>	<u>299,348</u>

NOTES TO THE ACCOUNTS

22 RESERVES (continued)

	Group							Total HK\$'000
	Share premium HK\$'000	Share redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange difference HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Accumulated losses HK\$'000	
At 1st April 2001 as previously reported	222,862	—	118,620	(306)	4,233	829	(46,890)	299,348
Effect of adopting SSAP 31(note1(k))	—	—	9,798	—	—	—	(9,798)	—
At 1st April 2001 as restated	222,862	—	128,418	(306)	4,233	829	(56,688)	299,348
Repurchase of shares	(71)	12	—	—	—	—	(12)	(71)
Deficit on revaluation of properties (note(a))	—	—	—	—	(4,124)	(829)	—	(4,953)
Loss for the year	—	—	—	—	—	—	(99,763)	(99,763)
At 31st March 2002	<u>222,791</u>	<u>12</u>	<u>128,418</u>	<u>(306)</u>	<u>109</u>	<u>—</u>	<u>(156,463)</u>	<u>194,561</u>
Representing:								
Company and subsidiaries	222,791	12	128,545	—	109	—	(95,013)	256,444
Jointly controlled entity	—	—	—	(253)	—	—	(17,998)	(18,251)
Associated companies	—	—	(127)	(53)	—	—	(43,452)	(43,632)
At 31st March 2002	<u>222,791</u>	<u>12</u>	<u>128,418</u>	<u>(306)</u>	<u>109</u>	<u>—</u>	<u>(156,463)</u>	<u>194,561</u>
	Company							
	Share premium HK\$'000	Share redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000			Total HK\$'000	
At 1st April 2000		274,303	—	174,556	(4,828)		444,031	
Capitalisation issue		(51,408)	—	—	—		(51,408)	
Issuing expenses		(33)	—	—	—		(33)	
Loss for the year		—	—	—	(172)		(172)	
At 31st March 2001		<u>222,862</u>	<u>—</u>	<u>174,556</u>	<u>(5,000)</u>		<u>392,418</u>	
At 1st April 2001		222,862	—	174,556	(5,000)		392,418	
Repurchase of shares		(71)	12	—	(12)		(71)	
Loss for the year		—	—	—	(168,876)		(168,876)	
At 31st March 2002		<u>222,791</u>	<u>12</u>	<u>174,556</u>	<u>(173,888)</u>		<u>223,471</u>	

NOTES TO THE ACCOUNTS

22 RESERVES (continued)

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

23 LONG-TERM LIABILITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans-secured (note (a))	49,479	39,304
Obligations under finance leases (note (b))	3,630	924
	<u>53,109</u>	<u>40,228</u>
Current portion of long-term liabilities	(16,841)	(15,058)
	<u>36,268</u>	<u>25,170</u>

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	15,381	14,516
In the second year	4,819	1,389
In the third to fifth years inclusive	14,457	1,001
More than five years	14,822	22,398
	<u>34,098</u>	<u>24,788</u>
	<u>49,479</u>	<u>39,304</u>

NOTES TO THE ACCOUNTS

23 LONG-TERM LIABILITIES (continued)

(b) As at 31st March 2002, the Group's finance leases liabilities were repayable as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,670	603
In the second year	1,670	392
In the third to fifth years inclusive	807	32
	<u>4,147</u>	<u>1,027</u>
Future finance charges on finance leases	(517)	(103)
Present value of finance leases liabilities	<u><u>3,630</u></u>	<u><u>924</u></u>

The present value of finance leases liabilities is as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,460	542
In the second year	1,460	353
In the third to fifth years inclusive	710	29
	<u>3,630</u>	<u>924</u>

NOTES TO THE ACCOUNTS

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 <i>HK\$'000</i>	As restated 2001 <i>HK\$'000</i>
Loss before taxation	(99,675)	(7,367)
Share of loss of a jointly controlled entity	3,503	1,926
Share of losses less profits of associated companies	13,966	7,564
Provision for amount due from an associated company	5,565	—
Gain on disposal of a subsidiary	(20,960)	—
Gain on dilution of interests in associated companies	—	(16,193)
Net gain on disposal of investment		
in securities – listed and unlisted	(5,677)	—
Interest income	(154)	(4,512)
Interest on bank loans and overdrafts	3,825	3,974
Interest element on finance leases	196	29
Deficit arising on revaluation of leasehold land and buildings not covered by previous revaluation surplus	1,586	1,390
Unrealised loss on other investments	—	63
Loss on disposal of fixed assets	1,332	6
Depreciation of owned fixed assets	14,995	15,578
Depreciation of fixed assets held under finance leases	78	151
Amortisation of films rights and sub-licensing rights	70,168	58,727
Impairment of goodwill	—	9,798
Impairment of film rights, film in progress, film sub-licensing rights and deposits	67,928	4,000
Decrease in inventories	1,222	3,431
Increase in accounts receivable	(3,812)	(3,393)
Decrease/(increase) in prepayments, deposits and other receivables	9,111	(7,820)
Increase/(decrease) in accounts and bills payable, receipts in advance and accruals	8,182	(4,733)
Net cash inflow from operating activities	<u>71,379</u>	<u>62,619</u>

NOTES TO THE ACCOUNTS

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Bank loans and finance lease obligations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st April	299,974	300,007	31,228	17,908
Redemption of own shares (note 20(a))	(83)	—	—	—
Inception of finance lease (note (c))	—	—	4,291	1,200
Finance lease obligations of a subsidiary disposed (note (d))	—	—	(10)	—
Net cash inflow from financing activities	—	(33)	8,080	12,120
At 31st March	<u>299,891</u>	<u>299,974</u>	<u>43,589</u>	<u>31,228</u>

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK\$4,291,000 (2001: HK\$1,200,000).

NOTES TO THE ACCOUNTS

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of interest in a subsidiary

	2002 HK\$'000
Net assets disposed of:	
Fixed assets	125
Film rights and film in progress	16,334
Accounts receivable	2,864
Bank balances and cash	52
Accounts payable	(6,059)
Obligations under finance leases	(10)
Balances with Group companies	(34,266)
	<u>(20,960)</u>
Satisfied by:	
Cash	<u>* —</u>

* Pursuant to a sale and purchase agreement dated 28th December 2001, the Group disposed of 20 per cent. of equity interest in its then subsidiary, Brilliant Idea Group Limited ("BIG") to the other existing shareholder of BIG at a consideration of HK\$1.

(e) Analysis of the net cash outflow in respect of the disposal of interest in a subsidiary:

	2002 HK\$'000
Cash consideration (note (d))	* —
Bank balances and cash	(52)
	<u>(52)</u>
Net cash outflow in respect of the disposal of interest in a subsidiary	<u>(52)</u>

NOTES TO THE ACCOUNTS

25 COMMITMENTS

- (a) As at 31st March 2002, the Group had contracted capital commitments but not provided for in these accounts as follows:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
(i) Capital commitment for property, plant and machinery	<u>261</u>	<u>2,570</u>
(ii) Capital commitment in respect of land and buildings	<u>584</u>	<u>21,871</u>
(iii) Other commitments in respect of		
— film production	14,173	26,780
— film licensing agreements	<u>55,266</u>	<u>25,333</u>
	<u>69,439</u>	<u>52,113</u>

- (b) As at 31st March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:—

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases in respect of land and buildings which expire:		
— within one year	<u>—</u>	<u>272</u>

- (c) As at 31st March 2002, the Group did not have any commitments in relation to the jointly controlled entity and the associated companies.

NOTES TO THE ACCOUNTS

26 CONTINGENT LIABILITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	67,175	51,454
Associated companies	7,709	2,997	7,709	2,997
	<u>7,709</u>	<u>2,997</u>	<u>74,884</u>	<u>54,451</u>

As at 31st March 2002, the Group did not have any contingent liabilities in relation to the jointly controlled entity.

27 PLEDGE OF ASSETS — GROUP

Banking facilities amounting to HK\$72,654,000 (2001: HK\$83,274,000) granted by banks to the Group are secured by the following:

- (i) legal charges over certain of the Group's properties and plant and machinery (*note 10(d)*);
- (ii) corporate guarantees executed by the Company; and
- (iii) 30,000,000 shares of the Company held by Kuo Hsing Holdings Limited.

NOTES TO THE ACCOUNTS

28 RELATED PARTY TRANSACTIONS

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

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Replication fees paid to associated companies	(a)	60,645	86,446
Interest income from associated companies	(b)	137	3,860
Origination fees received from an associated companies	(c)	368	366
Rental income from associated companies	(d)	12,553	13,996
Pre-mastering service fee paid to an associated company	(e)	1,544	1,091
Sale of fixed assets to an associated company	(f)	9,626	—
Commission income from an associated company	(g)	443	—
Website development and web hosting fees from an associated company	(h)	—	2,040
Sale of goods to an associated company	(i)	—	4,601
		<u> </u>	<u> </u>

- (a) Replication fees paid to the associated companies were conducted in the normal course of business and in accordance with the terms of the underlying agreement.
- (b) Interest received from associated companies was charged at Hong Kong prime rate plus 1.5 per cent. per annum.
- (c) Origination fees received from associated companies were conducted in the normal course of business and in accordance with the terms of the underlying agreement.
- (d) Rental income from the sub-letting of factory premises and leasing of certain plant and machinery to certain associated companies was determined on a cost reimbursement basis.
- (e) Pre-mastering service fee paid to an associated company was conducted in the normal course of business and in accordance with the terms of the underlying agreement.
- (f) Sale of fixed assets to an associated company was conducted in the normal course of business and in accordance with the terms of the underlying agreement.

NOTES TO THE ACCOUNTS

28 RELATED PARTY TRANSACTIONS *(continued)*

- (g) Commission income from an associated company is determined in accordance with the terms of the relevant agreement.
- (h) Website development and web hosting fees received from an associated company were determined in accordance with the relevant service agreements.
- (i) Sale of audio visual products to an associated company were conducted in the normal course of business and in accordance with the terms of the underlying agreement.

29 GROUP STRUCTURE-SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st March 2002:

Name	Place of incorporation	Principal activities and place of operation	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held directly:				
Mei Ah Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	50,050 ordinary shares of US\$1 each	100
Shares held indirectly:				
Mei Ah (HK) Company Limited	Hong Kong	Distribution of audio visual products in Hong Kong	10,000 ordinary shares of HK\$1 each	100
Mei Ah Film Production Company Limited	Hong Kong	Production, sales and licensing of video movies in Hong Kong	2 ordinary shares of HK\$1 each	100

NOTES TO THE ACCOUNTS

29 GROUP STRUCTURE-SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: (continued)				
Mei Ah Investment Company Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each 500,000 non-voting deferred shares of HK\$1 each	100
Mei Ah Video Production Company Limited	Hong Kong	Processing of audio visual products in Hong Kong	2 ordinary shares of HK\$1 each 10,000 non-voting deferred shares of HK\$1 each	100
Cameron Entertainment Company Limited	Hong Kong	Distribution of audio visual products in Hong Kong	2 ordinary shares of HK\$1 each	100
Mei Ah Trading Company Limited	British Virgin Islands	Sub-licensing of film rights in Hong Kong	50,000 ordinary shares of US\$1 each	100
Mei Ah Development Company Limited	British Virgin Islands	Sub-licensing of film rights in Hong Kong	50,000 ordinary shares of US\$1 each	100
Mei Ah Entertainment Development Company Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100

NOTES TO THE ACCOUNTS

29 GROUP STRUCTURE-SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: (continued)				
Mei Ah (China) Company Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Mei Ah Webcast International Corporation Limited	Hong Kong	Provision of internet services in Hong Kong	2 ordinary shares of HK\$1 each	100
MATV Limited	Hong Kong	Television operating and broadcasting in Hong Kong	4 ordinary shares of HK\$1 each	100
Mei Ah Infotainment Infrastructure Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Mei Ah Multi-Media Workshop Limited	Hong Kong	Programming of audio visual products in Hong Kong	10,000 ordinary shares of HK\$1 each	60
Mei Ah Laser Disc Company Limited	Hong Kong	Distribution of audio visual products in Hong Kong	2 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$1 each	100

NOTES TO THE ACCOUNTS

30 GROUP STRUCTURE-ASSOCIATED COMPANIES

The following is a list of the principal associated companies at 31st March 2002:

Name	Place of incorporation	Principal activities and place of operation	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly:				
Brilliant Idea Group Limited (<i>note (a)</i>)	Hong Kong	Production, sales and licensing of video movies in Hong Kong	10,000 ordinary shares of HK\$1 each	50
Silver Kent Technology Limited **	Hong Kong	Trading of audio visual products in Hong Kong	100 ordinary shares of HK\$1 each	45
Link Tech Optical Disc Limited **	Hong Kong	Processing of audio visual products in Hong Kong	100 ordinary shares of HK\$1 each	45
Cyberworks Audio Video Technology Limited **	Hong Kong	Processing of audio visual products in Hong Kong	10,000,000 ordinary shares of HK\$1 each	45
Mei Ah Cyberworks Corporation Limited **	British Virgin Islands	Investment holding in Hong Kong	100 ordinary shares of US\$1 each	45
China10K.com (BVI) Company Limited	British Virgin Islands	Investment holding in Hong Kong	10,000 ordinary shares of US\$1 each	41

NOTES TO THE ACCOUNTS

30 GROUP STRUCTURE-ASSOCIATED COMPANIES *(continued)*

Name	Place of incorporation	Principal activities and place of operation	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: <i>(continued)</i>				
China Culture Media Group Company Limited **	Hong Kong	Provision of internet content and e-commerce business in Hong Kong	100 ordinary shares of HK\$1 each	41
Travel10K.com Corporation Limited **	Hong Kong	Provision of internet content in Hong Kong	10,000 ordinary shares of HK\$1 each	41
M21 Technology Limited	Bermuda	Investment holding in Hong Kong	312,500,000 ordinary shares of HK\$0.01 each	29.25
M21 Investment Limited	British Virgin Islands	Investment holding in Hong Kong	400 ordinary shares of HK\$1 each	29.25
M21 Mastertech Company Limited	Hong Kong	Manufacturing and sale of stampers and provision of pre-mastering and other media services for audio visual products in Hong Kong	2,000 ordinary shares of HK\$1 each	29.25

NOTES TO THE ACCOUNTS

30 GROUP STRUCTURE-ASSOCIATED COMPANIES *(continued)*

Name	Place of incorporation	Principal activities and place of operation	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: <i>(continued)</i>				
M21 R&D Corporation Limited	Hong Kong	Research and development of iP Encoder and data compression technology in Hong Kong	1,000 ordinary shares of HK\$1 each	29.25

** Associated companies not audited by PricewaterhouseCoopers

Note:

- (a) Pursuant to a sale and purchase agreement dated 28th December 2001, the Group disposed of 20 per cent. of its equity interest in Brilliant Idea Group Limited ("BIG"), its then subsidiary, to the other existing shareholder of BIG at a consideration of HK\$1. Following the disposal, the Group's equity interest in BIG were decreased from 70% to 50%.

31 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th July 2002.