1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(ii) 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 value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss 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.

(f) Programmes and film rights

Programmes are stated at cost less amounts expensed and any provision considered necessary by the directors. Cost comprises direct expenditure and an appropriate proportion of production overheads. Cost of programmes is apportioned between domestic terrestrial market and overseas licensing and distribution market. In the case of former, the cost is expensed on first transmission, while in the latter, the cost is expensed on first distribution to licensees. Cost of programmes for certain satellite channels, where considered appropriate by the directors, is expensed in accordance with a formula computed to write off the cost over a maximum of three transmissions.

Film rights are stated at cost less amounts expensed and any provision considered necessary by the directors. Film rights are expensed in accordance with a formula computed to write off the cost over the contracted number of transmissions.

(g) Stocks

Stocks, comprising decoders, tapes, video compact discs and consumable supplies, are stated at the lower of cost and net realisable value. Cost of video compact disc is calculated on a weighted average basis whereas the cost of other stocks is calculated on a first in first out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) 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, cash investments with a maturity of three months or less from the date of investment and bank overdrafts and short term loans repayable within three months.

(j) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

In prior years, no provision was made for employee annual leave entitlements. The adoption of SSAP 34 (revised) has meant that adjustments to provide for employee annual leave entitlements have been made retrospectively and hence the comparatives presented have been restated.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

As detailed in the Consolidated Statement of Changes in Equity and note 25(a), the adoption of SSAP34 (revised) has resulted in a decrease of HK$42,657,000 and HK$49,476,000 in the opening balance of retained earnings of the group at 1 January 2001 and 2002 respectively which represents the provision for employee annual leave entitlements previously not yet recognised as at 31 December 2000 and 2001. An increase in current liabilities of HK$51,544,000 and a decrease in minority interests of HK$2,068,000 have been reflected in the consolidated balance sheet at 31 December 2001. The amount charged to the profit and loss account for the year ended 31 December 2001 was HK$6,819,000.

As detailed in the note 25(b), the adoption of SSAP34(revised) has resulted in a decrease of HK$35,662,000 and HK$41,172,000 in the opening balance of retained earnings of the company at 1 January 2001 and 2002 respectively which represents the provision for employee annual leave entitlements previously not yet recognised as at 31 December 2000 and 2001. An increase in current liabilities of HK$41,172,000 has been reflected in the balance sheet at 31 December 2001. The amount charged to the profit and loss account for the year ended 31 December 2001 was HK$5,510,000.

(ii) Pension obligations

The group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee - administered funds.

All permanent staff, temporary staff and full time artistes signed in individual names (excluding singers and serial artistes), whose employment period reaches 60 days or more (collectively as "eligible members") located in Hong Kong are entitled to the Mandatory Provident Fund Scheme ("MPF Scheme"). The contributions to the MPF Scheme made by the group for premanant and temporary staff comprise mandatory contributions and voluntary contributions. The mandatory contribution is calculated at 5% of individual's "relevant income" with a maximum amount of HK$1,000 per month and the voluntary contribution is calculated at 10% of individual's basic salary less the mandatory contribution. The group's contribution for full time artiste is 5% of artiste's "relevant income" with a maximum amount of HK$1,000 per month. "Relevant income" includes salaries, wages, paid leave, fees, commissions, bonuses, gratuities, and allowances (excluding housing allowance/benefits, any redeemed payment and long service payment). All eligible members have to contribute 5% of the "relevant income" is HK$4,000 or more per month with a maximum amount of HK$1,000 per month as the mandatory contributions. Eligible members may select to make additional voluntary contributions in addition to the mandatory contributions. Employer's voluntary contributions shall be refunded to the group according to the vesting scale when the eligible members leave employment prior to vesting fully in the MPF Scheme.

The retirement schemes which cover employees located in some overseas locations, except for Taiwan, are defined contribution schemes at various funding rates that are in accordance with the local practice and regulations. The employees located in Taiwan are members of a defined benefit retirement scheme. Pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year whilst the employees are not required to contribute. The pension obligation is measured as the present value of the estimated future cash outflows using average market yields for high quality corporate bonds and securities. Actuarial gains and losses are recognised over the average remaining service lives of employees.

The cost of all these schemes are charged to the profit and loss account in the period to which the contributions relate.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) 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.

(l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(m) Revenue recognition

Advertising income net of agency deductions are recognised when the advertisements are telecast.

Income from licensing of programme rights are recognised evenly over the contract period or upon delivery of the programmes concerned in accordance with the terms of the contracts.

Subscription income from operation of satellite and subscription television networks are recognised on a straight line basis over the contract period which generally coincides with the timing when the services are rendered. Unearned subscription fees received from subscribers are recorded as subscriptions received in advance under trade and other payables and accruals in the balance sheet.

Income from video tape renting and sale of magazines are recognised on delivery of products. Income from sale of animation productions is recognised progressively in accordance with the stage of completion of the production. Income from provision of uplink and playback services and other services is recognised when the services are rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) 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.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.