

## Notes to the accounts

### Note 1 Significant accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost except for certain investments in securities which are recorded at fair value as explained in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern their financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as other investments in securities as set out in Note 1(q) below.

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

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

(d) Goodwill

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

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

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

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

**Note 1** Significant accounting policies *continued*

## (e) Property, plant and equipment and depreciation

Property, plant and equipment are stated in the balance sheet at cost, less accumulated depreciation and any accumulated impairment losses (see Note 1(r) below). Cost includes materials, labour and an appropriate proportion of overhead and borrowing costs directly attributable to acquisition, construction or production of such property, plant and equipment that necessarily take a substantial period of time to get ready for their intended use. Estimated cost of dismantling and removing the property, plant and equipment and restoring the site, to the extent that it is recognised as a provision under SSAP 28 "Provisions, contingent liabilities and contingent assets" issued by the HKSA, is also included.

Depreciation is provided on a straight-line basis on the cost of the equipment required to support a fully operating network and cable television system at rates determined by the estimated useful lives of the assets ranging from five to 20 years, adjusted by the appropriate pre-maturity fraction during the pre-maturity period, which began with the first earned subscriber revenue on October 31, 1993 and was to continue until the earlier of the attainment of a predetermined subscriber level and December 31, 1996. The pre-maturity period ended on November 30, 1996, when the predetermined subscriber level was attained. Depreciation is provided on a straight-line basis on the cost of other assets at rates determined by the estimated useful lives of the assets ranging from two to 40 years.

The principal annual depreciation rates used are as follows:

Network, decoders, cable modems and television production systems	5% to 50%
Furniture, fixtures, other equipment and motor vehicles	10% to 33.33%
Leasehold land	Shorter of 40 years and unexpired term of land leases
Buildings	2.5%
Leasehold improvements	8.33%

## (f) Programming library

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

Costs of in-house programmes are written off in the period in which they are incurred.

## (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined by the Group based on the expected replacement cost of the inventories net of provisions for obsolescence.

## Notes to the accounts *continued*

### Note 1 Significant accounting policies *continued*

- (h) Cash and cash equivalents  
Cash and cash equivalents comprise cash at bank and on hand, deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.
- (i) Revenue recognition  
Revenue is recognised in the profit and loss account provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if any, can be measured reliably as follows:
- (i) Income from the provision of subscription television and Internet services is recognised at the time when the services are provided.
  - (ii) Installation fees are recognised upon completion of the related installation work to the extent of direct selling costs.
  - (iii) Where packaged service fees comprise a number of elements and the fees can be allocated on a reasonable basis into elements of subscription service and installation service, revenue is recognised in accordance with the accounting policies set out in Note 1(i)(i) and (ii) above. Where packaged service fees cannot be allocated into individual elements, the fees are deferred and recognised evenly over the term of the service period.
  - (iv) Advertising income net of agency deductions is recognised on telecast of the advertisement. When an advertising contract covers a specified period, the related income is recognised evenly over the contract period.
  - (v) Programme licensing income is recognised on a straight-line basis over the licence period or in full upon delivery of the programmes concerned in accordance with the terms of the licence contracts, and is stated net of withholding tax.
  - (vi) When the outcome of construction contracts relating to the Group's satellite television services business can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured with reference to the percentage of contract costs incurred to date relative to the estimated total contract costs. When the outcome of such construction contracts cannot be estimated reliably, revenue is recognised only to the extent that recovery of contract costs is probable.
  - (vii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
  - (viii) Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.
- (j) Borrowing costs  
Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use.

**Note 1** Significant accounting policies *continued*

## (k) Deferred taxation

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

## (l) Operating leases

Rentals payable and rentals receivable in respect of assets held or provided under operating leases are recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received or granted are recognised in the profit and loss account as an integral part of the aggregate net lease rentals payable or receivable.

## (m) Foreign currency translation

The functional currency of the Group's operations is the Hong Kong dollar.

Foreign currency transactions are translated into Hong Kong dollars at the market rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

## (n) Allowance for doubtful accounts

An allowance for doubtful accounts is provided upon the evaluation of the recoverability of the receivables at the balance sheet date.

## (o) Construction contracts

The accounting policy for contract revenue is set out in Note 1(i)(vi) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense with reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings. Amounts received before the related work is performed are included under current liabilities, and amounts billed but not yet paid by the customer for work performed on a contract are included under current assets.

## (p) Related party transactions

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## Notes to the accounts *continued*

### Note 1 Significant accounting policies *continued*

(q) Other investments in securities

- (i) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (ii) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

(r) Impairment of assets

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

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

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

(i) *Calculation of recoverable amount*

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

(ii) *Reversals of impairment losses*

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

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

**Note 1** Significant accounting policies *continued*

## (s) Segment reporting

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

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

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

## (t) Provisions and contingent liabilities

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

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

## (u) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) Contributions to defined contribution plans, including contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred, except to the extent that they are included in the cost of property, plant and equipment not yet recognised as an expense.
- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

## Notes to the accounts *continued*

### Note 2 Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 32 to the accounts.

Turnover comprises principally subscription and installation fees for cable television and Internet services and also includes equipment rental, advertising income net of agency deductions, marketing contributions, channel service fees, television relay service income, programme licensing income, fibre network and satellite television systems maintenance income, project management service fees, sales of satellite television systems, television magazine sales, late payment charges to subscribers and similar income.

### Note 3 Segment information

Business segments

	Pay television		Internet and multimedia		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<i>Revenue</i>						
External revenue	1,710,767	1,595,362	450,021	335,637	2,160,788	1,930,999
<i>Result</i>						
Segment result	331,757	349,323	8,668	(49,692)	340,425	299,631
Unallocated corporate expenses					(113,990)	(119,802)
Profit from operations					226,435	179,829
Interest income					26,355	58,649
Non-operating (expense) / income					(198)	1,027
Impairment loss on investments					(72,870)	-
Finance costs					(62,463)	(72,013)
Taxation					-	-
Profit attributable to shareholders					117,259	167,492
<i>Assets</i>						
Segment assets	1,619,901	1,726,945	948,179	886,527	2,568,080	2,613,472
Unallocated corporate assets					548,825	1,642,399
Consolidated total assets					3,116,905	4,255,871
<i>Liabilities</i>						
Segment liabilities	485,752	550,628	265,331	279,441	751,083	830,069
Unallocated corporate liabilities					854,054	1,982,427
Consolidated total liabilities					1,605,137	2,812,496
<i>Other information</i>						
Capital expenditure						
- property, plant and equipment	352,115	336,018	200,825	286,034		
- programming library	91,092	81,078				
Depreciation	296,826	285,016	201,758	143,198		
Amortisation	152,728	103,200				

**Note 3** Segment information *continued*

Geographical segments

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

**Note 4** Non-operating (expense) / income

This comprises net (loss) / profit on disposal of property, plant and equipment.

**Note 5** Profit before taxation

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

	2002 HK\$'000	2001 HK\$'000
Interest income		
Interest income from listed investments	(1,402)	(8,691)
Interest income from deposits with banks and other financial institutions	(24,259)	(49,655)
Other interest income	(694)	(303)
	<b>(26,355)</b>	<b>(58,649)</b>
Finance costs		
Interest expenses on bank loans and overdrafts repayable within five years	1,861	13
Interest expenses on convertible bonds repayable within five years	60,602	72,000
	<b>62,463</b>	<b>72,013</b>
Other items		
Depreciation:		
– assets held for use in operating leases	59,265	32,453
– others	444,993	402,206
Amortisation of programming library*	152,861	103,253
Cost of inventories	12,671	23,841
Rentals payable under operating leases in respect of land and buildings	43,271	42,736
Contribution to defined contribution plans	35,405	32,925
Impairment loss on investments	72,870	–
Auditors' remuneration	2,035	1,802
Rentals receivable under operating leases in respect of:		
Subleased land and buildings	(5,773)	(7,146)
Owned plant and machinery	(27,865)	(30,955)
Net realised gain on disposal of listed debt securities	(469)	–

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



## Notes to the accounts *continued*

### Note 5 Profit before taxation *continued*

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

	2002 HK\$'000	2001 HK\$'000
Depreciation and amortisation (including amortisation of programming library)	657,119	537,912
Staff costs	620,276	627,455
Other operating expenses	656,958	585,803
<b>Total operating costs</b>	<b>1,934,353</b>	<b>1,751,170</b>

### Note 6 Taxation

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

	2002 HK\$'000	2001 HK\$'000
Provision for Hong Kong Profits Tax for the year	10,827	8,825
Over provision in respect of prior year	(4)	-
Deferred tax credit (Note 31(a))	(10,823)	(8,825)
	-	-

The provision for Hong Kong Profits Tax is calculated separately on the taxable profit of each entity within the Group at 16% (2001: 16%).

(b) Taxation in the balance sheet represents:

	Group	
	2002 HK\$'000	2001 HK\$'000
Provision for Hong Kong Profits Tax for the year	10,827	8,825
Provisional Profits Tax paid	(8,820)	(6,737)
	2,007	2,088

**Note 7 Directors' emoluments**

Details of Directors' emoluments are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	142	144
Basic salaries, housing and other allowances, and benefits in kind	2,210	2,978
Retirement scheme contributions	121	128
Discretionary bonuses and/or performance related bonuses	5,163	4,040
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	<b>7,636</b>	7,290

Included in the Directors' emoluments were fees of HK\$100,000 (2001: HK\$72,000) payable to the independent non-executive Directors. Furthermore, reimbursement of expenses of HK\$29,000 (2001: HK\$16,000) was paid to an independent non-executive Director.

Except Directors' fees of HK\$142,000 (2001: HK\$144,000), all of the Directors' emoluments disclosed above were paid directly by the Company's ultimate holding company, The Wharf (Holdings) Limited ("Wharf") (or its wholly owned subsidiaries) to the relevant Directors. Wharf recovered such costs from the Group by charging a management fee (see Note 36(v)).

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme and Wharf's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme of the Company" in Disclosure of Further Corporate Information.

The emoluments of the Directors are within the following bands:

HK\$	2002 Number of directors	2001 Number of directors
Nil - 1,000,000	7	9
4,500,001 - 5,000,000	-	1
6,500,001 - 7,000,000	1	-
	<b>8</b>	10

## Notes to the accounts *continued*

### Note 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2001: one) is a director whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other four (2001: four) individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing and other allowances, and benefits in kind	8,862	9,030
Retirement scheme contributions	694	778
Discretionary bonuses and/or performance related bonuses	2,920	3,128
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	<b>12,476</b>	12,936

The emoluments of the four (2001: four) individuals with the highest emoluments are within the following bands:

HK\$	2002 Number of individuals	2001 Number of individuals
2,500,001 - 3,000,000	2	2
3,000,001 - 3,500,000	1	1
3,500,001 - 4,000,000	1	1
	<b>4</b>	4

### Note 9 Profit attributable to shareholders

The profit attributable to shareholders includes a profit of HK\$456,000 (2001: HK\$491,346,000) which has been dealt with in the accounts of the Company.

**Note 10 Dividends**

- (a) Dividends attributable to the year

	2002 HK\$'000	2001 HK\$'000
Interim dividend declared and paid of 1.5 cents per share (2001: Nil)	30,289	–
Final dividend proposed after the balance sheet date of 1.5 cents per share (2001: 2.5 cents per share)	30,289	50,350
	<b>60,578</b>	50,350

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

- (b) Dividend attributable to the previous financial year, approved and paid during the year

	2002 HK\$'000	2001 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.5 cents per share (2001: Nil)	50,350	–

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

- (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$117,259,000 (2001: HK\$167,492,000) and the weighted average number of ordinary shares outstanding during the year of 2,016,284,165 (2001: 2,014,000,000).

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$117,259,000 (2001: HK\$167,492,000) and the weighted average number of ordinary shares of 2,026,931,374 (2001: 2,022,501,763) after adjusting for the effects of all dilutive potential ordinary shares.

- (c) Reconciliations

	2002 Number of individuals	2001 Number of individuals
Weighted average number of ordinary shares used in calculating basic earnings per share	2,016,284,165	2,014,000,000
Deemed issue of ordinary shares for no consideration	10,647,209	8,501,763
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>2,026,931,374</b>	2,022,501,763

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

Notes to the accounts *continued*

## Note 12 Property, plant and equipment

	Group						
	Network, decoders, cable modems and television production systems HK\$'000	Furniture, fixtures, other equipment and motor vehicles HK\$'000	Leasehold land and buildings in Hong Kong			Leasehold improvements HK\$'000	Total HK\$'000
			Long lease HK\$'000	Medium lease HK\$'000	Short lease HK\$'000		
Cost							
At January 1, 2002	4,511,128	446,428	3,306	1,938	70	260,721	5,223,591
Additions	500,225	39,412	-	735	-	19,032	559,404
Disposals	(79,204)	(12,265)	-	-	-	(1,105)	(92,574)
Reclassification	(5,275)	-	-	-	-	-	(5,275)
At December 31, 2002	4,926,874	473,575	3,306	2,673	70	278,648	5,685,146
Accumulated depreciation							
At January 1, 2002	2,465,654	365,222	989	92	70	134,297	2,966,324
Charge for the year	452,131	27,597	76	55	-	24,399	504,258
Impairment loss	1,671	-	-	-	-	-	1,671
Written back on disposals	(75,712)	(11,702)	-	-	-	(629)	(88,043)
Reclassification	(1,253)	-	-	-	-	-	(1,253)
At December 31, 2002	2,842,491	381,117	1,065	147	70	158,067	3,382,957
Net book value							
At December 31, 2002	2,084,383	92,458	2,241	2,526	-	120,581	2,302,189
At December 31, 2001	2,045,474	81,206	2,317	1,846	-	126,424	2,257,267

As at December 31, 2002, the gross carrying amounts of property, plant and equipment of the Group held for use in operating leases were HK\$322,921,000 (2001: HK\$177,386,000) and the related accumulated depreciation was HK\$132,796,000 (2001: HK\$36,873,000).

**Note 13 Programming library**

	Group HK\$'000
Cost	
At January 1, 2002	480,956
Programming licences and rights acquired	91,092
Written off	(91,651)
At December 31, 2002	480,397
Accumulated amortisation	
At January 1, 2002	270,336
Charge for the year	152,861
Written off	(91,651)
At December 31, 2002	331,546
Net book value	
At December 31, 2002	148,851
At December 31, 2001	210,620

**Note 14 Non-current investments**

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equity securities	20,957	78,925

**Note 15 Investments in subsidiaries**

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares at cost	8	8

Particulars of subsidiaries are set out in Note 32.

## Notes to the accounts *continued*

### Note 16 Deposits with financial institutions

The deposits placed with financial institutions and maturing in 2003 are credit-linked to investment grade debt securities issued by corporates, including a fellow subsidiary.

### Note 17 Investments in debt securities

	Group	
	2002 HK\$'000	2001 HK\$'000
Listed outside Hong Kong, at market value	15,746	–

### Note 18 Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured and interest free, except for an amount of HK\$686,298,621 (2001: HK\$1,800,000,000) outstanding at 31 December 2002 which bears interest at rates ranging from 2.03% to 4% per annum, and have no fixed terms of repayment.

### Note 19 Inventories

	Group	
	2002 HK\$'000	2001 HK\$'000
Spare parts, consumables and equipment held for resale	41,739	55,052
Less: Provision for obsolescence	(17,262)	(18,577)
	24,477	36,475

Included in spare parts, consumables and equipment held for resale are inventories of HK\$24,477,000 (2001: HK\$36,475,000) stated net of provision made in order to state these inventories at the lower of their cost and estimated net realisable value.

### Note 20 Accounts receivable from trade debtors

An ageing analysis of accounts receivable from trade debtors (net of allowance for doubtful accounts) is set out as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 to 30 days	63,700	71,550
31 to 60 days	12,951	13,916
61 to 90 days	6,327	7,270
Over 90 days	6,502	5,287
	89,480	98,023

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

**Note 21** Amounts due from fellow subsidiaries

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

**Note 22** Cash and cash equivalents

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank deposits	–	1,209,944	–	–
Cash at bank and on hand	<b>6,696</b>	2,466	<b>486</b>	32
Cash and cash equivalents in the balance sheet	<b>6,696</b>	1,212,410	<b>486</b>	32
Bank overdrafts	–	(8,357)	–	–
Cash and cash equivalents in the cash flow statement	<b>6,696</b>	1,204,053	<b>486</b>	32

**Note 23** Interest-bearing borrowings

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Convertible bonds	<b>300,000</b>	1,800,000	<b>300,000</b>	1,800,000
Less: Due over one year included under non-current liabilities	–	(1,800,000)	–	(1,800,000)
	<b>300,000</b>	–	<b>300,000</b>	–
Unsecured bank loans	<b>386,299</b>	–	<b>386,299</b>	–
Unsecured bank overdrafts	–	8,357	–	–
Due within one year included under current liabilities	<b>686,299</b>	8,357	<b>686,299</b>	–

Convertible bonds of principal value HK\$300 million (2001: HK\$1,800 million) are held by the Wharf group and are convertible to shares at a price of HK\$11.95 per share, which would result in the issue of approximately 25 million (2001: 151 million) shares upon full conversion, to rank pari passu and carry the same rights and privileges in all respects as other shares of the Company.

The term of the bonds is four years from November 24, 1999, the date on which the Company's shares commenced trading on The Stock Exchange of Hong Kong Limited. Interest is payable at the rate of 4% per annum, payable semi-annually in arrears.

The holders of the bonds may require the Company to convert part or all of the bonds at any time during the 4-year term of the bonds, subject to certain conditions. The Company may repurchase bonds at any time at any price by agreement with the bondholder.

During the year, the Company has redeemed at face value a portion of the convertible bonds in the amount of HK\$1,500 million. The early redemption was approved by independent shareholders at an extraordinary general meeting held on October 22, 2002. Unless previously repurchased, cancelled, redeemed or converted, the remaining portion of the convertible bonds of HK\$300 million will be redeemed at their principal amount on maturity.



## Notes to the accounts *continued*

### Note 24 Amounts due to trade creditors

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

	Group	
	2002 HK\$'000	2001 HK\$'000
0 to 30 days	13,746	7,389
31 to 60 days	15,304	17,172
61 to 90 days	16,560	8,584
Over 90 days	7,838	13,684
	<b>53,448</b>	46,829

### Note 25 Amounts due to subsidiaries

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

### Note 26 Amounts due to fellow subsidiaries

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

### Note 27 Amount due to immediate holding company

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

### Note 28 Current assets and current liabilities

Included under current assets and current liabilities are amounts which are expected to be recovered/settled after more than one year as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Inventories	21,518	18,167	-	-
Accounts receivable from trade debtors	-	2,548	-	-
Deposits, prepayments and other receivables	6,418	6,660	-	-
Amounts due from fellow subsidiaries	7,510	7,129	-	-
Accrued expenses and other payables	(15,785)	-	-	-
Receipts in advance and customers' deposits	(94,797)	(86,749)	-	-
Amounts due to fellow subsidiaries	-	(13)	-	-

**Note 29 Equity compensation benefits**

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

Details of the share option scheme are disclosed under the paragraph "Share Option Scheme of the Company" in Disclosure of Further Corporate Information.

## (a) Movements in share options

	2002 Number	2001 Number
At January 1	66,843,000	19,520,000
Issued	380,000	50,034,000
Exercised	(5,234,400)	–
Lapsed	(3,445,000)	(2,711,000)
At December 31	58,543,600	66,843,000
Options vested at December 31	18,520,500	3,792,000

## (b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2002 Number	2001 Number
February 8, 2000	April 1, 2001 to December 31, 2009	HK\$10.49	17,820,000	18,960,000
February 19, 2001	July 1, 2002 to December 31, 2003	HK\$3.30	27,243,800	33,001,000
February 19, 2001	July 1, 2002 to December 31, 2005	HK\$3.30	13,099,800	14,882,000
October 9, 2002	January 1, 2004 to December 31, 2005	HK\$3.30	380,000	–
			58,543,600	66,843,000

Notes to the accounts *continued***Note 29** Equity compensation benefits *continued*

(c) Details of share options granted during the year at a consideration of HK\$10

Date granted	Exercise period	Exercise price	2002 Number	2001 Number
February 19, 2001	July 1, 2002 to December 31, 2003	HK\$3.30	–	34,813,000
February 19, 2001	July 1, 2002 to December 31, 2005	HK\$3.30	–	15,221,000
October 9, 2002	January 1, 2004 to December 31, 2005	HK\$3.30	<b>380,000</b>	–
			<b>380,000</b>	50,034,000

(d) Details of share options exercised during the year

Exercise period	Exercise price	Market value per share at exercise date	Proceeds received	Number
July 2, 2002 to September 13, 2002	HK\$3.30	Range from HK\$3.60 to HK\$4.75	HK\$17,273,000	5,234,000

**Note 30** Share capital

	2002		2001	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Authorised Ordinary shares of HK\$1 each	<b>8,000,000</b>	<b>8,000,000</b>	8,000,000	8,000,000
Issued and fully paid At January 1	<b>2,014,000</b>	<b>2,014,000</b>	2,014,000	2,014,000
Shares issued under share option scheme	<b>5,234</b>	<b>5,234</b>	–	–
At December 31	<b>2,019,234</b>	<b>2,019,234</b>	2,014,000	2,014,000

During the year, options were exercised to subscribe for 5,234,000 ordinary shares in the Company at a consideration of HK\$17,273,000, of which HK\$5,234,000 was credited to share capital and the balance of HK\$12,039,000 was credited to the share premium account.

**Note 31** Deferred taxation

- (a) Movements in deferred taxation comprise:

	Group	
	2002 HK\$'000	2001 HK\$'000
At January 1	150,619	159,444
Transfer to the profit and loss account (Note 6(a))	(10,823)	(8,825)
At December 31	139,796	150,619

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

- (b) Major components of the net deferred tax asset of the Group not provided for are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Future benefit of tax losses	1,039,899	1,046,728
Tax depreciation allowances in excess of related accounting depreciation	(124,626)	(112,153)
Provision for obsolete inventories	32	32
	915,305	934,607

Notes to the accounts *continued***Note 32** Particulars of subsidiaries

The subsidiaries of the Company at December 31, 2002 were as follows:

Name of company	Place of incorporation / operation	Principal activities	Particulars of issued capital, all fully paid	Percentage of ordinary shares held	
				Directly	Indirectly
Apex Victory Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	100	–
Cable Network Communications Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	100	–
Hong Kong Cable Enterprises Limited (formerly Global Media In Force Limited)	Hong Kong	Advertising airtime, programme licensing and online shopping	2 ordinary shares of HK\$1 each	–	100
Hong Kong Cable Television Limited	Hong Kong	Pay television services	1,000,000,000 ordinary shares of HK\$1 each	–	100
i-CABLE Cineplex Limited	Hong Kong	Inactive	10,000,000 ordinary shares of HK\$1 each	–	100
i-CABLE China Limited	British Virgin Islands	Inactive	500 ordinary shares of US\$1 each	–	100
i-CABLE Network Limited	Hong Kong	Network operation services	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	–	100
i-CABLE Satellite Television Limited	Hong Kong	Non-domestic television services	2 ordinary shares of HK\$1 each	–	100
i-CABLE WebServe Limited	Hong Kong	Internet and multimedia services	2 ordinary shares of HK\$1 each	–	100
i-CABLE Ventures Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	100	–
Kreuger Assets Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	–	100
Maspon Company Limited	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	–	100
Moscan Assets Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	–	100
New Television and Film International Limited	Hong Kong	Inactive	2 ordinary shares of HK\$10 each	–	100

**Note 32** Particulars of subsidiaries *continued*

Name of company	Place of incorporation / operation	Principal activities	Particulars of issued capital, all fully paid	Percentage of ordinary shares held	
				Directly	Indirectly
Rediffusion Engineering Limited	Hong Kong	Systems installation and operation	100 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	-	100
Rediffusion (Hong Kong) Limited	Hong Kong	Cable television relay services	100 ordinary shares of GBP0.50 each 40,000 non-voting deferred shares of GBP0.50 each	-	100
Rediffusion Satellite Services Limited	Hong Kong	Satellite television systems	1,000 ordinary shares of HK\$10 each	-	100
Riddlewood Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	-	100
Wisdom Global Holdings Limited	British Virgin Islands	Investment holding	500 ordinary shares of US\$1 each	-	100

Details of partnerships held indirectly through subsidiaries at December 31, 2002 were as follows:

Name of partnership	Law under which incorporated	Principal activities	Percentage of interest
The Cable Leasing Partnership	Hong Kong	Leasing	100
The Network Leasing Partnership	Hong Kong	Leasing	100

**Note 33** Operating leases

## (a) Significant leasing arrangements

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

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

The Group leases out cable modem equipment to subscribers under operating leases. Prior to June 2002, the terms of the leases vary and may run for an initial period of not more than twelve months with automatic renewal on a year-to-year basis at rates prevailing at the time of expiry, unless terminated by the lessees by giving 30 days' written notice prior to the lease expiry date. With effect from June 2002, the terms of the leases were revised to become renewable on a monthly basis. The Group also leases out decoders to cable television subscribers under operating leases starting from year 2002 with the leases renewable on a monthly basis. None of the leases includes contingent rentals.

## Notes to the accounts *continued*

### Note 33 Operating leases *continued*

(b) Operating lease commitments

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	35,366	36,199	–	–
After one year but within five years	81,633	106,481	–	–
After five years	2,753	13,529	–	–
	<b>119,752</b>	156,209	–	–

(c) Future operating lease income

(i) The total future minimum sublease payments receivable under non-cancellable subleases at December 31, 2002 amounted to HK\$9,412,000 (2001: HK\$15,039,000).

(ii) The total future minimum lease payments receivable in respect of cable modem equipment and decoders under non-cancellable operating leases are as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,829	5,274	–	–

### Note 34 Capital commitments

Capital commitments outstanding as at December 31, 2002 not provided for in the accounts were as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Authorised and contracted for				
– Plant and equipment	61,006	160,743	–	–
– Programming rights	13	2,626	–	–
	<b>61,019</b>	163,369	–	–
Authorised but not contracted for				
– Plant and equipment	77,871	132,343	–	–
– Programming rights	13,672	28,907	–	–
	<b>91,543</b>	161,250	–	–

**Note 35 Contingent liabilities**

As at December 31, 2002, there were contingent liabilities in respect of the following:

- (i) Performance bond amounting to HK\$10 million (2001: HK\$20 million) given to the Telecommunications Authority of Hong Kong as required under the Group's fixed telecommunications network services licence.
- (ii) The Company has undertaken to provide financial support to certain of its subsidiaries in order to enable them to continue to operate as going concerns.
- (iii) Guarantees, indemnities and letters of awareness to banks totalling HK\$19 million (2001: HK\$151 million) in respect of overdraft and guarantee facilities given by those banks to the subsidiaries. Of this amount, at December 31, 2002, HK\$7 million (2001: HK\$41 million) was utilised by the subsidiaries.
- (iv) The Group is currently in discussion with the Inland Revenue Department regarding the deductibility of certain interest payments claimed in previous years' tax computations. The outcome of the discussion is uncertain. The management of the Group is of the view that there are ample grounds to support the deductibility of the interest expense and accordingly, no provision has been made in this respect. In addition, the immediate holding company has indemnified the Group against any liability for tax which may arise in consequence of an event occurring on or before November 1, 1999. It is estimated that the maximum tax exposure at December 31, 2002 amounted to HK\$99 million (2001: HK\$97 million), of which HK\$64 million (2001: HK\$72 million) will be indemnified by the immediate holding company.

**Note 36 Related party transactions**

The following represent material related party transactions between the Group and related parties during the year ended December 31, 2002:

	2002 HK\$'000	2001 HK\$'000
Interest expenses on convertible bonds held by the Wharf group (Note (i))	<b>60,602</b>	72,000
Rentals payable and related management fees on land and buildings (Note (ii))	<b>40,551</b>	40,700
Rentals receivable on land and buildings (Note (iii))	<b>(4,446)</b>	(5,769)
Network repairs and maintenance services charge (Note (iv))	<b>(20,556)</b>	(16,307)
Management fees (Note (v))	<b>13,423</b>	12,797
Computer services (Note (vi))	<b>12,236</b>	9,106
Leased line and Public Non-Exclusive Telecommunications Service ("PNETS") charges and international bandwidth access charges (Note (vii))	<b>23,799</b>	20,916
Project management fees (Note (viii))	<b>(7,558)</b>	(10,371)



## Notes to the accounts *continued*

### Note 36 Related party transactions *continued*

*Notes:*

- (i) This represents interest expenses on convertible bonds held by the Wharf group.
- (ii) These represent rentals and related management fees paid to fellow subsidiaries in respect of office premises, car parks, warehouses, district centres, retail shops and hub sites. As at December 31, 2002, related rental deposits amounted to HK\$8,711,000 (2001: HK\$8,773,000).
- (iii) This represents rental received from a fellow subsidiary in respect of the lease of office premises.
- (iv) This represents service charges to a fellow subsidiary in relation to the operation, repair and maintenance of ducts, cables and ancillary equipment.
- (v) This represents costs incurred by a fellow subsidiary on the Group's behalf which were recharged to the Group.
- (vi) This represents service charges paid to a fellow subsidiary for computer system maintenance and consulting services provided.
- (vii) This represents service fees paid to a fellow subsidiary in respect of the leasing of datalines, PNETS charges and international bandwidth access charges incurred.
- (viii) This represents fees received from a fellow subsidiary for the provision of project management services.

Included in Note 12 were additions to property, plant and equipment totalling HK\$1,397,000 (2001: HK\$5,854,000) constructed by a fellow subsidiary on behalf of the Group during the year ended December 31, 2002.

As described in Note 23, during the year, the Company has early redeemed convertible bonds in the principal amount of HK\$1,500 million held by the Wharf group at face value after obtaining independent shareholders' approval at an extraordinary general meeting held on October 22, 2002.

The immediate holding company has issued deeds of indemnity in respect of certain litigation, taxation and costs arising in respect of the period prior to the Reorganisation. The Group is not charged for these indemnities.

### Note 37 Post balance sheet event

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

**Note 38 Comparative figures**

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP15 (revised 2001) "Cash Flow Statements". As a result, cash flow items from taxation, returns on investments and servicing of finance (other than dividends paid) have been classified into operating activities while dividends paid have been classified into financing activities. A detailed breakdown of cash flows from operating activities has also been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

**Note 39 Ultimate holding company**

The Directors consider the ultimate holding company at December 31, 2002 to be The Wharf (Holdings) Limited, which is incorporated in Hong Kong.

**Note 40 Approval of accounts**

The accounts were approved and authorised for issue by the Directors on March 18, 2003.