

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and leasehold land and buildings are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these new or revised SSAPs had no material effect on the Group's results.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

NOTES TO THE ACCOUNTS

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

(b) Group accounting *(continued)*

(i) Consolidation *(continued)*

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 unamortised 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.

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.

(ii) Jointly controlled entity

A 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.

Equity accounting is discontinued when the carrying amount of the investment in a jointly controlled entity reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the jointly controlled entity.

NOTES TO THE ACCOUNTS

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

(b) Group accounting *(continued)*

(iii) 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.

(iv) 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. All exchange differences 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 movements in reserves.

In prior years, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

NOTES TO THE ACCOUNTS

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

(c) Fixed assets

(i) *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 by independent valuers. 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.

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.

(ii) *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 on an open market basis related to individual properties except that 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 leasehold improvements, furniture, fixtures and equipment, plant and machinery and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

NOTES TO THE ACCOUNTS

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

(c) Fixed assets *(continued)*

(iii) Depreciation

No depreciation is provided for investment properties and properties under development.

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:

Buildings	2%
Leasehold improvements	10% or lease term, whichever is the shorter
Furniture, fixtures and equipment	20% to 25%
Plant and machinery	20% to 25%
Motor vehicles	25%

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

(iv) 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 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 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)*

(d) 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 the 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.

(e) 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.

NOTES TO THE ACCOUNTS

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

(f) 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.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

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. For the year ended 31st March 2002, the Group applied SSAP 31, and the directors considered that the goodwill had been impaired as at that date to the extent of HK\$9,798,000 and accordingly adjustments had been made in the consolidated profit and loss account for the respective periods in which the impairment was considered to have occurred. As detailed in note 22, 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 had increased by HK\$9,798,000 representing the cumulative effects of this change in accounting policy at that date.

(g) 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.

(ii) *Films in progress*

Films in progress are stated at cost less any provision for impairment losses. 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.

NOTES TO THE ACCOUNTS

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

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

(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 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) At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that 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 account.

(h) 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.

(i) 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.

NOTES TO THE ACCOUNTS

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

(j) **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.

(k) **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 with maturity date within three months from the date of advance.

(l) **Borrowing costs**

Borrowing costs that are directly attributable to the construction work of 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 ready for its intended use.

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

(m) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave and long-service 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.

NOTES TO THE ACCOUNTS

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

(m) Employee benefits *(continued)*

(ii) Pension obligations

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 are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(n) Revenue recognition

- (i) Revenue from the distribution of films and programs in audio visual product format 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.
- (ii) Film exhibition income is recognised when the right to receive payment is established.
- (iii) 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.
- (iv) Revenues from television operations comprise sub-licensing of programme rights, advertising and airtime revenue. Revenue from sub-licensing of programme rights is recognised on the basis as set out in note 1(n)(iii) above, and advertising and airtime revenue is recognised when the relevant advertisements and programs are broadcast. Advertising and airtime revenue under barter arrangement is recognised upon receipt of relevant films and programs from independent third parties and when relevant advertisements and programs are broadcast by the Group pursuant to the terms of the relevant agreements.
- (v) Internet and related service fee income is recognised when the relevant services are rendered.
- (vi) Rental income is recognised on a straight line basis.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (viii) Commission income from royalty rights is recognised on an accrual basis.

NOTES TO THE ACCOUNTS

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

(n) Revenue recognition *(continued)*

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

(o) Contingent liabilities and contingent assets

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.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) 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 and geographical as the secondary reporting format.

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 interest in a subsidiary and gain on disposal of investment securities. Segment assets comprise primarily of fixed assets, film rights and films in progress, film sub-licensing rights and deposits, inventories, accounts receivable, prepayments, deposits and other receivables, pledged deposits and operating cash. Unallocated assets mainly represent certain leasehold land and buildings situated in Hong Kong and tax recoverable. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings. Capital expenditure comprises additions to fixed assets, film rights, films in progress, perpetual and non-perpetual film rights and film sub-licensing rights (notes 10, 15 and 16).

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale and distribution of films and programs in audio visual product format	137,091	132,112
Film exhibition and film rights licensing and sub-licensing	19,723	30,672
Television operations	19,343	—
Provision of internet and related services	502	671
Others	—	789
	176,659	164,244
Other revenues		
Rental income from investment properties	873	710
Rental income from land and buildings and sub-letting of properties and plant and machinery	6,216	12,760
Dividend income from listed investment securities	700	—
Commission income from royalty rights	1,697	443
Interest income	364	154
	9,850	14,067
Total revenues	186,509	178,311

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

Primary report format – business segments

The Group is organised into five main business segments:

- Sale and distribution of films and programs in audio visual product format
- Film exhibition and film rights licensing and sub-licensing
- Television operations
- Provision of internet and related services
- Processing of audio visual products

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

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

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

	For the year ended 31st March 2003					Group HK\$'000
	Sale and distribution of films and programs in audio visual product format HK\$'000	Film exhibition and film rights licensing and sub- licensing HK\$'000	Television operations HK\$'000	Provision of internet and related services HK\$'000	Processing of audio visual products HK\$'000	
Revenues	<u>137,091</u>	<u>19,723</u>	<u>19,343</u>	<u>502</u>	<u>—</u>	<u>176,659</u>
Segment results						
before impairment	(4,649)	3,496	(12,985)	(14,695)	—	(28,833)
Impairment of film rights, films sub-licensing rights and deposits	(6,707)	(51)	—	—	—	(6,758)
Segment results	<u>(11,356)</u>	<u>3,445</u>	<u>(12,985)</u>	<u>(14,695)</u>	<u>—</u>	<u>(35,591)</u>
Unallocated income						20,502
Unallocated costs						(10,305)
Operating loss						(25,394)
Finance costs						(4,383)
Share of losses less profits of:						
Jointly controlled entity	(434)	—	—	—	—	(434)
Associated companies	—	(1,618)	—	—	(1,477)	(3,095)
Loss before taxation						(33,306)
Taxation						—
Loss after taxation						(33,306)
Minority interests						348
Loss attributable to shareholders						<u>(32,958)</u>

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

	For the year ended 31st March 2003					
	Sale and distribution of films and programs in audio visual product format	Film exhibition and film rights licensing and sub-licensing	Television operations	Provision of internet and related services	Processing of audio visual products	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	75,433	19,524	4,783	2,694	–	102,434
Investment in jointly controlled entity	–	–	–	–	–	–
Investments in associated companies	–	28,246	–	(401)	56,063	83,908
Unallocated assets						169,643
Total assets						355,985
Segment liabilities	(50,510)	(10,060)	(2,281)	(1,026)	–	(63,877)
Unallocated liabilities						(53,857)
Total liabilities						(117,734)
Minority interests						343
Net assets						238,594
Capital expenditure	69,252	11,536	520	361	–	81,669
Other unallocated capital expenditure						17,627
						99,296
Depreciation	6,922	54	951	236	–	8,163
Other unallocated depreciation						5,026
						13,189
Amortisation charge	55,259	11,211	–	–	–	66,470

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

	For the year ended 31st March 2002					
	Sale and distribution of films and programs in audio visual product format	Film exhibition and film rights licensing and sub- licensing	Provision of internet and related services	Processing of audio visual products	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenues	132,112	30,672	671	—	789	164,244
Segment results before impairment	(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						42,725
Unallocated costs						(8,393)
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)

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

	For the year ended 31st March 2002					
	Sale and distribution of films and programs in audio visual product format	Film exhibition and film rights licensing and sub-licensing	Provision of internet and related services	Processing of audio visual products	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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)
Net assets						271,661
Capital expenditure	39,632	28,246	—	34	4,307	72,219
Other unallocated capital expenditure						22,768
						94,987
Depreciation	6,946	83	—	217	6,783	14,029
Other unallocated depreciation						1,044
						15,073
Amortisation charge	43,124	27,044	—	—	—	70,168

Secondary report format – geographical segment

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

NOTES TO THE ACCOUNTS

3 OPERATING LOSS

	2003	2002
	HK\$'000	HK\$'000
Operating loss is stated after crediting and charging the following:		
Crediting		
Net gain on disposal of investment securities #	—	5,677
Net exchange gains	31	—
Gain on disposal of interest in a subsidiary #	—	20,960
Gain on disposal of fixed assets #	3,145	—
Written back of provision for doubtful receivables #	2,833	—
	3,029	16,189
Charging		
Amortisation of film rights	3,029	16,189
Amortisation of perpetual and non-perpetual film rights	8,182	10,855
Amortisation of film sub-licensing rights	55,259	43,124
Auditors' remuneration		
— current year	790	938
— overprovision in prior years	(193)	(243)
Deficit arising on revaluation not covered by previous revaluation surplus		
— investment properties*	1,886	—
— leasehold land and buildings*	5,145	1,586
Depreciation		
— owned fixed assets	12,113	14,995
— leased fixed assets	1,076	78
Impairment of films rights and films in progress	51	21,163
Impairment of perpetual and non-perpetual film rights	—	15,068
Impairment of film sub-licensing rights and deposits	6,707	31,697
Impairment loss on film rights	6,758	67,928
Loss on disposal of fixed assets	—	1,332
Net exchange losses	—	62
Operating lease rentals in respect of land and buildings	898	3,541
Provision for doubtful accounts receivable and prepayments, deposits and other receivables *	—	13,283
Provision for amounts due from associated companies *	11,648	5,565
Provision for obsolete inventories *	—	152
Staff costs (including directors' emoluments) (note 8)	18,370	25,119
#	included in other income	
*	included in other expenses	

NOTES TO THE ACCOUNTS

4 FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	4,134	3,825
Interest element of finance leases	249	196
Total borrowing costs incurred	4,383	4,021
Less: amount capitalised in leasehold land and buildings	—	(1,592)
	4,383	2,429

5 TAXATION

No provision for Hong Kong and overseas profits tax has been made as there was no estimated assessable profit for the year (2002: Nil).

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

The amount of taxation charged to the consolidated profit and loss account in last year represented share of taxation attributable to an associated company.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(80)	1,540
Tax losses	2,591	12,367
	2,511	13,907

NOTES TO THE ACCOUNTS

5 TAXATION (continued)

At 31st March 2003, the net potential deferred tax assets/(liabilities) not recognised in the accounts amounted to:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(6,186)	(6,106)
Tax losses	31,895	29,304
	25,709	23,198

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\$1,510,000 (2002: HK\$168,876,000).

7 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$32,958,000 (2002: HK\$99,763,000) and the weighted average of 771,000,000 (2002: 771,058,527) shares in issue during the year.

Diluted loss per share for the year is not disclosed as there were no dilutive potential ordinary shares as at 31st March 2003. 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.

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	17,847	24,306
Pension costs — defined contribution plans	523	813
	18,370	25,119

NOTES TO THE ACCOUNTS

9 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:

	2003	2002
	HK\$'000	HK\$'000
Fees	250	600
Other emoluments		
— basic salaries, allowances and other benefits in kind	5,045	5,145
Pension contributions	51	126
	5,346	5,871

Directors' fees disclosed above include HK\$250,000 (2002: HK\$300,000) 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\$1.1267 per share. The Options are exercisable at any time during the period from 19th August 2000 to 18th August 2002. During the year, none of the options was exercised and the Options expired on 18th August 2002.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
HK\$ Nil — HK\$1,000,000	*4	*4
HK\$1,000,001 — HK\$1,500,000	2	2
HK\$2,000,001 — HK\$2,500,000	1	1
	7	7

* Including two independent non-executive directors

None of the directors has waived any of their emoluments in respect of the years ended 31st March 2003 and 2002.

NOTES TO THE ACCOUNTS

9 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 four (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2002: two) individual during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Basic salaries, allowances and other benefits in kind	514	1,913
Pension contributions	9	67
	523	1,980

The emoluments fell within the following bands:

	Number of individuals	
	2003	2002
HK\$ Nil — HK\$1,000,000	1	1
HK\$1,000,001 — HK\$1,500,000	—	1
	1	2

During the years ended 31st March 2003 and 31st March 2002, no emoluments have been paid by the Group to the four (2002: three) directors or the one (2002: two) highest paid individual as an inducement to join the Group, or as compensation for loss of office.

NOTES TO THE ACCOUNTS

10 FIXED ASSETS

	Investment properties	Leasehold land and buildings	Leasehold improvements	Group Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation							
At 1st April 2002	17,030	127,720	5,884	10,039	57,657	5,223	223,553
Additions	—	11,328	5,769	2,018	879	—	19,994
Revaluation deficit	(1,995)	(8,153)	—	—	—	—	(10,148)
Transfers	10,153	(10,153)	—	—	—	—	—
Disposals	—	—	—	—	(29,638)	—	(29,638)
At 31st March 2003	25,188	120,742	11,653	12,057	28,898	5,223	203,761
Accumulated depreciation							
At 1st April 2002	—	—	4	4,514	38,551	3,971	47,040
Charge for the year	—	3,008	951	1,636	7,076	518	13,189
Revaluation deficit	—	(3,008)	—	—	—	—	(3,008)
Disposals	—	—	—	—	(17,783)	—	(17,783)
At 31st March 2003	—	—	955	6,150	27,844	4,489	39,438
Net book value							
At 31st March 2003	25,188	120,742	10,698	5,907	1,054	734	164,323
At 31st March 2002	17,030	127,720	5,880	5,525	19,106	1,252	176,513

NOTES TO THE ACCOUNTS

10 FIXED ASSETS (continued)

The analysis of the cost or valuation at 31st March 2003 of the above assets is as follows:

	Investment properties	Leasehold land and buildings	Leasehold improvements	Group Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost	—	—	11,653	12,057	28,898	5,223	57,831
At 2003 professional valuation	25,188	120,742	—	—	—	—	145,930
	<u>25,188</u>	<u>120,742</u>	<u>11,653</u>	<u>12,057</u>	<u>28,898</u>	<u>5,223</u>	<u>203,761</u>

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

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>127,720</u>	<u>5,884</u>	<u>10,039</u>	<u>57,657</u>	<u>5,223</u>	<u>223,553</u>

Net book value of leased assets

At 31st March 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,807</u>	<u>—</u>	<u>216</u>	<u>4,023</u>
At 31st March 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,775</u>	<u>—</u>	<u>309</u>	<u>4,084</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:

	2003	Group
	HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	3,000	3,700
Leases of between 10 to 50 years	132,980	130,100
Outside Hong Kong, held on:		
Leases of over 50 years	9,950	10,950
	145,930	144,750

- (a) Except for certain leasehold land and buildings situated in Hong Kong which were valued at 31st March 2003 on the basis of its depreciated replacement cost (note (b)), 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 by Memfus Wong Surveyors Limited, an independent professional valuers in Hong Kong ("Memfus Wong Surveyors").
- (b) Certain leasehold land and buildings situated in Hong Kong are held by the Group under a 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 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\$124,638,000 (2002: HK\$142,546,000) had they been stated at cost less accumulated depreciation.

NOTES TO THE ACCOUNTS

10 FIXED ASSETS *(continued)*

- (d) At 31st March 2003, certain investment properties and leasehold land and buildings with an aggregate net book value of HK\$135,980,000 (2002: HK\$120,310,000) 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 timing differences for taxation purposes because management of the Group intends to operate these properties on a long-term basis.

11 SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost <i>(note (a))</i>	46,010	46,010
Amounts due from subsidiaries <i>(note (b))</i>	451,619	456,108
Amounts due to subsidiaries <i>(note (b))</i>	(34,900)	(34,510)
	462,729	467,608
Provision for amounts due from subsidiaries	(167,000)	(167,000)
	295,729	300,608

- (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

	2003	Group
	HK\$'000	2002
		<i>HK\$'000</i>
Share of net liabilities (<i>note (a)</i>)	(17,604)	(17,170)
Amount due from a jointly controlled entity (<i>note (b)</i>)	17,604	17,170
	—	—
Unlisted shares, at cost	1,083	1,083

- (a) This represents the Group's 70% interest in Guangzhou Tung Ah Audio Video Production Company Limited. The Group's control over the jointly controlled entity (the "JCE") 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 JCE 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 held indirectly
廣州東亞音像制作有限公司 ("Guangzhou Tung Ah Audio Video Production Company Limited")	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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Share of net liabilities	(19,974)	(9,908)	—	—
Amounts due from associated companies (note (b))	121,096	115,955	—	(5)
Provision for amounts due from associated companies	(17,214)	(11,358)	—	—
	<u>83,908</u>	<u>94,689</u>	<u>—</u>	<u>(5)</u>
Investment at cost:				
Listed shares in Hong Kong	3,682	3,682	—	—
Unlisted shares	30,042	30,042	—	—
	<u>33,724</u>	<u>33,724</u>	<u>—</u>	<u>—</u>
Market value of listed shares	<u>41,133</u>	<u>63,984</u>	<u>—</u>	<u>—</u>

(a) Details of associated companies are set out in note 30 to the accounts.

(b) The amounts due from associated companies are unsecured, interest-free, and have no fixed repayment terms.

14 INVESTMENT SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity securities, at cost	7,517	3,000
Unlisted equity securities, at cost	—	23
	<u>7,517</u>	<u>3,023</u>
Market value of listed equity securities	<u>9,960</u>	<u>7,933</u>

NOTES TO THE ACCOUNTS

15 FILM RIGHTS AND FILMS IN PROGRESS

	Group			Total
	Film rights	Perpetual film rights	Films in progress	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At 1st April 2002	125,134	15,458	11,733	152,325
Additions	150	3,630	1,668	5,448
Transfers	4,360	—	(4,360)	—
At 31st March 2003	129,644	19,088	9,041	157,773
Accumulated amortisation and impairment				
At 1st April 2002	121,162	8,654	5,683	135,499
Charge for the year	3,029	2,890	—	5,919
Impairment loss	—	—	51	51
At 31st March 2003	124,191	11,544	5,734	141,469
Net book value				
At 31st March 2003	5,453	7,544	3,307	16,304
At 31st March 2002	3,972	6,804	6,050	16,826

NOTES TO THE ACCOUNTS

16 FILM SUB-LICENSING RIGHTS AND DEPOSITS

	Film royalty deposits <i>HK\$'000</i>	Group Film sub- licensing rights <i>HK\$'000</i>	Non- perpetual film rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st April 2002	20,245	78,722	18,666	117,633
Additions	32,439	35,471	5,944	73,854
Transfers	(33,806)	33,806	—	—
At 31st March 2003	18,878	147,999	24,610	191,487
Accumulated amortisation and impairment				
At 1st April 2002	6,245	68,576	17,269	92,090
Charge for the year	—	55,259	5,292	60,551
Impairment loss	2,638	4,069	—	6,707
At 31st March 2003	8,883	127,904	22,561	159,348
Net book value				
At 31st March 2003	9,995	20,095	2,049	32,139
At 31st March 2002	14,000	10,146	1,397	25,543

NOTES TO THE ACCOUNTS

17 INVENTORIES

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Blank tapes	335	265
Films and programs in audio visual product format	15,126	17,493
Less: provision for obsolete inventories	(1,003)	(5,987)
	14,458	11,771

18 ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Current to 3 months	15,139	22,231
4 to 6 months	9,369	2,689
Over 6 months	4,565	7,687
	29,073	32,607
Less: provision for doubtful debts	(4,462)	(10,872)
	24,611	21,735

The Group's credit term to accounts receivable ranges from 7 to 30 days.

19 ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Current to 3 months	5,991	8,349
4 to 6 months	578	—
Over 6 months	3,183	1,256
	9,752	9,605

NOTES TO THE ACCOUNTS

20 SHARE CAPITAL

	Authorised Shares of HK\$0.1 each	
	No. of shares	
	<i>(Thousands)</i>	<i>HK\$'000</i>
At 31st March 2002 and 31st March 2003	<u>3,000,000</u>	<u>300,000</u>
	Issued and fully paid Shares of HK\$0.1 each	
	No. of shares	
	<i>(Thousands)</i>	<i>HK\$'000</i>
At 1st April 2001	771,125	77,112
Repurchase of shares	(125)	(12)
At 31st March 2002 and 31st March 2003	<u>771,000</u>	<u>77,100</u>

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, none of the Options were exercised and the Options expired on 18th August 2002. No Option was granted during the year.

NOTES TO THE ACCOUNTS

22 RESERVES

	Group							Total HK\$'000
	Share premium HK\$'000	Share redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange difference HK\$'000	Investment	Other	Accumulated losses HK\$'000	
					properties	properties		
					revaluation reserve HK\$'000	revaluation reserve 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 (note 1(ff))	—	—	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	—	—	—	—	(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)
	<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>

NOTES TO THE ACCOUNTS

22 RESERVES (continued)

	Group						
	Share			Investment properties			
	Share premium	redemption reserve	Contributed surplus	Exchange difference	revaluation reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2002	222,791	12	128,418	(306)	109	(156,463)	194,561
Deficit on revaluation of properties	—	—	—	—	(109)	—	(109)
Loss for the year	—	—	—	—	—	(32,958)	(32,958)
At 31st March 2003	222,791	12	128,418	(306)	—	(189,421)	161,494
Representing:							
Company and subsidiaries	222,791	12	128,545	—	—	(124,442)	226,906
Jointly controlled entity	—	—	—	(253)	—	(18,432)	(18,685)
Associated companies	—	—	(127)	(53)	—	(46,547)	(46,727)
	222,791	12	128,418	(306)	—	(189,421)	161,494

Note: The contributed surplus of the Group represents the credit arising from the reduction of share capital during the year ended 31st March 1999.

NOTES TO THE ACCOUNTS

22 RESERVES (continued)

	Company				
	Share				
	Share premium	redemption reserve	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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>
At 1st April 2002	222,791	12	174,556	(173,888)	223,471
Loss for the year	—	—	—	(1,510)	(1,510)
At 31st March 2003	<u>222,791</u>	<u>12</u>	<u>174,556</u>	<u>(175,398)</u>	<u>221,961</u>

Note: 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	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans - secured (note (a))	51,615	49,479
Obligations under finance leases (note (b))	2,896	3,630
	54,511	53,109
Current portion of long-term liabilities	(19,883)	(16,841)
	<u>34,628</u>	<u>36,268</u>

NOTES TO THE ACCOUNTS

23 LONG-TERM LIABILITIES (continued)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	18,084	15,381
In the second year	8,084	4,819
In the third to fifth year	24,254	14,457
After the fifth year	1,193	14,822
	33,531	34,098
	51,615	49,479

(b) As at 31st March 2003, the Group's finance leases liabilities were repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	2,054	1,670
In the second year	1,183	1,670
In the third to fifth year	62	807
	3,299	4,147
Future finance charges on finance leases	(403)	(517)
Present value of finance leases liabilities	2,896	3,630

The present value of finance leases liabilities are repayable in the following periods:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,799	1,460
In the second year	1,042	1,460
In the third to fifth year	55	710
	2,896	3,630

NOTES TO THE ACCOUNTS

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow generated from operations

	2003	2002
	HK\$'000	<i>HK\$'000</i>
Loss before taxation	(33,306)	(99,675)
Share of loss of a jointly controlled entity	434	3,503
Share of losses less profits of associated companies	3,095	13,966
Provision for amounts due from associated companies	11,648	5,565
Gain on disposal of interest in a subsidiary	—	(20,960)
Net gain on disposal of investment securities	—	(5,677)
Interest income	(364)	(154)
Dividend income from listed investment securities	(700)	—
Interest on bank loans and overdrafts	4,134	3,825
Interest element on finance leases	249	196
Deficit arising on revaluation of leasehold land and buildings and investment properties not covered by previous revaluation surplus	7,031	1,586
(Gain)/loss on disposal of fixed assets	(3,145)	1,332
Depreciation of owned fixed assets	12,113	14,995
Depreciation of fixed assets held under finance leases	1,076	78
Amortisation of films rights and sub-licensing rights	66,470	70,168
Impairment of film rights, film in progress, film sub-licensing rights and deposits	6,758	67,928
Operating profit before working capital changes	75,493	56,676
(Increase)/decrease in inventories	(2,687)	1,222
Increase in accounts receivable	(2,876)	(3,812)
Decrease in prepayments, deposits and other receivables	5,267	9,111
Increase in accounts payable, bills payable, receipts in advance and accruals	16,751	8,182
Net cash inflow generated from operations	91,948	71,379

NOTES TO THE ACCOUNTS

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Minority interests		Share capital including share premium		Bank loans and finance lease obligations	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of year	—	—	299,903	299,974	53,109	31,228
Redemption of own shares	—	—	—	(71)	—	—
Inception of finance lease <i>(note (c))</i>	—	—	—	—	795	4,291
Finance lease obligations of subsidiary disposed	—	—	—	—	—	(10)
Bank loan raised	—	—	—	—	10,000	15,074
Repayment of bank loans	—	—	—	—	(8,344)	(5,419)
Repayment of capital element of finance leases	—	—	—	—	(1,529)	(1,575)
Increase in bank loans classified as cash and cash equivalents	—	—	—	—	480	9,520
Investment from a minority shareholder	5	—	—	—	—	—
Share of losses by minority interests	(348)	—	—	—	—	—
At the end of year	(343)	—	299,903	299,903	54,511	53,109

(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\$795,000 (2002: HK\$4,291,000).

NOTES TO THE ACCOUNTS

25 COMMITMENTS

- (a) At 31st March 2003, the Group had contracted capital commitments but not provided for in these accounts as follows:

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
(i) Capital commitment for property, plant and machinery	<u>159</u>	<u>261</u>
(ii) Capital commitment in respect of land and buildings	<u>—</u>	<u>584</u>
(iii) Other commitments in respect of		
— film production	—	14,173
— film licensing agreements	<u>29,340</u>	<u>55,266</u>
	<u>29,340</u>	<u>69,439</u>

- (b) At 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:—

	Group	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Not later than one year	<u>2,787</u>	<u>—</u>
Later than one year and not later than five years	<u>2,400</u>	<u>—</u>
	<u>5,187</u>	<u>—</u>

- (c) At 31st March 2003, 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	82,744	67,175
Associated companies	9,000	7,709	9,000	7,709
	9,000	7,709	91,744	74,884

27 PLEDGE OF ASSETS – GROUP

At 31st March 2003, banking facilities amounting to HK\$74,809,000 (2002: HK\$72,654,000) granted by banks to the Group are secured by the following:

- (i) legal charges over certain of the Group's properties (note 10(d));
- (ii) corporate guarantees executed by the Company (note 26);
- (iii) 30,000,000 shares of the Company held by Kuo Hsing Holdings Limited, which is beneficially controlled by Mr. Li Kuo Hsing, a director of the Company; and
- (iv) fixed deposits of HK\$500,000 (2002: HK\$500,000) held by the Group.

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:

		Group	
		2003	2002
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Replication fees paid to an associated company	(a)	35,861	60,645
Rental income received from associated companies	(b)	4,416	12,553
Pre-mastering service fees paid to an associated company	(c)	1,983	1,544
Proceeds on sale of fixed assets to an associated company	(d)	15,000	9,626
Commission income received from an associated company	(e)	1,697	443
Payout and post-production service fees paid to an associated company	(f)	3,191	—

- (a) Replication fees paid to an associated company were conducted in the normal course of business and in accordance with the terms of the underlying agreement.
- (b) Rental income received from the sub-letting of factory premises to certain associated companies was determined on a cost reimbursement basis.
- (c) Pre-mastering service fees paid to an associated company were conducted in the normal course of business and in accordance with the terms of the underlying agreement.
- (d) 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.
- (e) Commission income from an associated company was determined in accordance with the terms of the relevant agreement.
- (f) Payout and post-production service fees paid to an associated company were conducted in the normal course of business and in accordance with the terms of the underlying agreements.

NOTES TO THE ACCOUNTS

29 GROUP STRUCTURE – SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st March 2003:

Name	Place of incorporation	Principal activities	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	50,050 ordinary shares of US\$1 each	100
Shares held indirectly:				
Mei Ah (HK) Company Limited	Hong Kong	Distribution of audio visual products	10,000 ordinary shares of HK\$1 each	100
Mei Ah Film Production Company Limited	Hong Kong	Production of films and telefeatures	2 ordinary shares of HK\$1 each	100
Mei Ah Investment Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100
			500,000 non-voting deferred shares of HK\$1 each	
Mei Ah Video Production Company Limited	Hong Kong	Processing of audio video post-production services	2 ordinary shares of HK\$1 each	100
			10,000 non-voting deferred shares of HK\$1 each	

NOTES TO THE ACCOUNTS

29 GROUP STRUCTURE – SUBSIDIARIES *(continued)*

Name	Place of incorporation	Principal activities	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: <i>(continued)</i>				
Mei Ah Trading Company Limited	British Virgin Islands	Sub-licensing of film rights	50,000 ordinary shares of US\$1 each	100
Mei Ah Development Company Limited	British Virgin Islands	Sub-licensing of film rights	50,000 ordinary shares of US\$1 each	100
MATV Limited	Hong Kong	Television operations	4 ordinary shares of HK\$1 each	100
First Choice Media Group Limited	Hong Kong	Sale of audio visual products	2 ordinary shares of HK\$1 each	100
Winning Creator Limited	Hong Kong	Distribution of audio visual products	10,000 ordinary shares of HK\$1 each	51

NOTES TO THE ACCOUNTS

30 GROUP STRUCTURE – ASSOCIATED COMPANIES

The following is a list of the principal associated companies at 31st March 2003:

Name	Place of incorporation	Principal activities	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly:				
Brilliant Idea Group Limited	Hong Kong	Production, sales and licensing of films	10,000 ordinary shares of HK\$1 each	50
Silver Kent Technology Limited **	Hong Kong	Trading of audio visual products	100 ordinary shares of HK\$1 each	45
Link Tech Optical Disc Limited **	Hong Kong	Processing of audio visual products	100 ordinary shares of HK\$1 each	45
China 10K.com (BVI) Company Limited	British Virgin Islands	Investment holding	10,000 ordinary shares of US\$1 each	41
China Culture Media Group Company Limited **	Hong Kong	Provision of internet content and e-commerce business	100 ordinary shares of HK\$1 each	41
M21 Technology Limited	Bermuda	Investment holding	312,500,000 ordinary shares of HK\$0.01 each	29.25
M21 Investment Limited	British Virgin Islands	Investment holding	400 ordinary shares of US\$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	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	Nominal value of issued share capital	Percentage of equity interest attributable to the Group
Shares held indirectly: <i>(continued)</i>				
M21 Digicast Company Limited (formerly known as M21 R&D Corporation Limited)	Hong Kong	Provision of audiovisual playout services on audiovisual data and provision of post-production services	1,000 ordinary shares of HK\$1 each	29.25

** Associated companies not audited by PricewaterhouseCoopers

Note: Other than Mei Ah Trading Company Limited and Mei Ah Development Company Limited which operate in Hong Kong and overseas, all subsidiaries and associated companies are principally operated in Hong Kong.

31 ULTIMATE HOLDING COMPANY

The directors regard Kuo Hsing Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

32 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th July 2003.