

NOTES TO THE ACCOUNTS (Continued)

3 OPERATING PROFIT

(a) Operating profit is stated after crediting and charging the following:

| | 2003 | 2002 |
|---|-----------|-----------|
| | HK\$'000 | HK\$'000 |
| <u>Crediting</u> | | |
| Gains on disposal of fixed assets | 1,613 | 148 |
| Net exchange gains | 8,467 | 893 |
| <u>Charging</u> | | |
| Auditors' remuneration | 3,309 | 2,724 |
| Non-audit service fees paid to principal auditors (mainly tax services) | 907 | 774 |
| Cost of programmes, film rights and stocks | 1,151,008 | 1,031,083 |
| Depreciation - owned fixed assets | 235,107 | 166,842 |
| Depreciation - leased fixed assets | 212 | 269 |
| Impairment of fixed assets (note 13(a)) | 15,978 | - |
| Provisions for onerous contracts (note 23) | 95,277 | - |
| Amortisation of goodwill (note 12) | 2,127 | - |
| Operating leases | | |
| - Equipment and transponders | 92,884 | 113,051 |
| - Land and buildings | 108,337 | 113,996 |
| Staff costs, excluding directors' emoluments (note 4) | 1,156,371 | 1,131,437 |

(b) On 30 November 2001, MEASAT Broadcast Network System (BVI) Ltd. ("MBNS(BVI)") and Home Net N.V. ("HomeNet") were each issued 4,500,000 shares of TVB.COM Limited ("TVB.COM") unpaid at HK\$8.60 per share. These shares, which did not carry voting and dividend rights until paid for, were to be paid for by four equal instalments. Two of these instalments were received by the end of February 2003, thus increasing MBSN(BVI)'s interest in TVB.COM to 18.42% and HomeNet's interest to 7.9%. This transaction is accounted for as a deemed disposal of the group's interest in TVB.COM resulting in a profit of HK\$27,726,000. TVB.COM changed its name to TVB Publishing Holding Limited on 12 December 2001.

4 STAFF COSTS

| | 2003 | 2002 |
|--|-----------|-----------|
| | HK\$'000 | HK\$'000 |
| Wages and salaries | 1,065,681 | 1,050,853 |
| Unutilised annual leave | 8,329 | 772 |
| Pension costs - defined contribution plans | 76,479 | 76,382 |
| Pension costs - defined benefits plans | 5,882 | 3,430 |
| | 1,156,371 | 1,131,437 |

NOTES TO THE ACCOUNTS (Continued)

5 DIRECTORS' EMOLUMENTS

| | 2003 | 2002 |
|-------------------------|---------------|--------------|
| | HK\$'000 | HK\$'000 |
| Fees | 1,298 | 1,205 |
| Salaries and allowances | 6,338 | 2,400 |
| Discretionary bonuses | 2,050 | 1,400 |
| Pension contributions | 498 | 240 |
| | 10,184 | 5,245 |

The emoluments disclosed above include HK\$203,000 (2002: HK\$115,000) paid to independent non-executive directors.

The aggregate emoluments paid to the directors are further analysed into the following bands:

| Emolument bands | Number of directors in each band | |
|-------------------------------|----------------------------------|----------|
| | 2003 | 2002 |
| HK\$Nil - HK\$1,000,000 | 8 | 7 |
| HK\$1,000,001 - HK\$1,500,000 | 1 | - |
| HK\$3,500,001 - HK\$4,000,000 | 2 | - |
| HK\$4,000,001 - HK\$4,500,000 | - | 1 |
| | 11 | 8 |

During the year, a director, Kevin Lo Chung Ping, has waived fees payable to him as director and executive committee member of the company totalling HK\$85,000 (2002: HK\$85,000).

6 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the group for the year include two (2002: one) directors whose emoluments are reflected in the analysis presented in note 5. The emoluments payable to the remaining three (2002: four) individuals during the year are as follows:

| | 2003 | 2002 |
|-------------------------|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Salaries and allowances | 8,575 | 13,089 |
| Bonuses | 1,192 | 2,149 |
| Pension contributions | 571 | 1,006 |
| | 10,338 | 16,244 |

The aggregate emoluments paid to the individuals are further analysed into the following bands:

| Emolument bands | Number of individuals in each band | |
|-------------------------------|------------------------------------|----------|
| | 2003 | 2002 |
| HK\$2,500,001 - HK\$3,000,000 | 1 | 1 |
| HK\$3,500,001 - HK\$4,000,000 | 2 | 1 |
| HK\$4,000,001 - HK\$4,500,000 | - | 1 |
| HK\$5,500,001 - HK\$6,000,000 | - | 1 |
| | 3 | 4 |

NOTES TO THE ACCOUNTS (Continued)

7 FINANCE COSTS

| | 2003 | 2002 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Interest on overdrafts, bank loans and other loans | | |
| -wholly repayable within five years | 14,375 | 18,710 |
| -not wholly repayable within five years | 2,762 | 3,180 |
| Interest element of finance leases | 65 | 55 |
| Interest element of land premium paid | 2,071 | 4,151 |
| Total borrowing costs incurred | 19,273 | 26,096 |
| Less : Amount capitalised in land and buildings | (2,071) | (4,151) |
| | 17,202 | 21,945 |

The capitalisation rate applied to the amount of borrowing costs being capitalised in land and buildings is 6.75% per annum (2002: 6.75% per annum).

8 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the group operates.

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

| | 2003 | 2002 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Current taxation: | | |
| - Hong Kong profits tax | 7,673 | 80,841 |
| - Overseas taxation | 6,011 | 4,434 |
| - (Over)/under provisions in prior years | (4,674) | 1,563 |
| Deferred taxation relating to the origination and reversal of temporary differences | 10,950 | 3,226 |
| Deferred taxation resulting from an increase in tax rate | 5,418 | - |
| | 25,378 | 90,064 |

NOTES TO THE ACCOUNTS (Continued)

8 TAXATION (Continued)

The taxation on the group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the place where the company operates as follows:

| | 2003 | 2002 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 485,087 | 684,251 |
| Calculated at a taxation rate of 17.5% (2002: 16%) | 84,890 | 109,480 |
| Effect of different taxation rates in other countries | (55,633) | (44,801) |
| Income not subject to taxation | (7,003) | (706) |
| Expenses not deductible for taxation purposes | 20,878 | 1,591 |
| Tax losses not recognised | 17,557 | 24,579 |
| Utilisation of previously unrecognised tax losses | (27,456) | (512) |
| Tax credit allowance | (2,326) | - |
| Others | (6,273) | (1,130) |
| (Over)/under provisions in prior years | (4,674) | 1,563 |
| Increase in opening net deferred tax liabilities resulting from an increase in tax rate | 5,418 | - |
| | 25,378 | 90,064 |

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of HK\$237,174,000 (2002: HK\$466,856,000).

10 DIVIDENDS

| | 2003 | 2002 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Interim dividend paid of HK\$0.20 (2002: HK\$0.20) per ordinary share | 87,600 | 87,600 |
| Proposed final dividend of HK\$0.60 (2002: HK\$0.75) per ordinary share | 262,800 | 328,500 |
| | 350,400 | 416,100 |

At a meeting held on 17 March 2004 the directors declared a final dividend of HK\$0.60 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2004.

11 EARNINGS PER SHARE

The earnings per share is calculated based on the group's profit attributable to shareholders of HK\$440,998,000 (2002: HK\$589,918,000) and 438,000,000 shares in issue throughout the years ended 31 December 2003 and 2002.

NOTES TO THE ACCOUNTS (Continued)

12 INTANGIBLE ASSETS

| | <u>Goodwill</u> |
|------------------------------------|-----------------|
| | HK\$'000 |
| Year ended 31 December 2003 | |
| Opening net book amount | - |
| Acquisition of subsidiaries | 64,866 |
| Amortisation charge | (2,127) |
| | <hr/> |
| Closing net book amount | 62,739 |
| | <hr/> |
| At 31 December 2003 | |
| Cost | 64,866 |
| Accumulated amortisation | (2,127) |
| | <hr/> |
| Net book amount | 62,739 |
| | <hr/> |
| At 31 December 2002 | |
| Net book amount | - |
| | <hr/> |

NOTES TO THE ACCOUNTS (Continued)

13 FIXED ASSETS

(a) Group

| | Construction in progress | Land and buildings | Leasehold improvements | Studio, broadcasting and transmitting equipment | Furniture, fixtures and equipment | Motor vehicles | Total |
|--|--------------------------------|-----------------------|---------------------------|---|--|-------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost | | | | | | | |
| At 1 January 2003 | 1,321,541 | 146,256 | 228,375 | 1,535,153 | 324,786 | 38,556 | 3,594,667 |
| Exchange differences | - | 1,937 | 1,425 | 8,189 | 3,350 | 328 | 15,229 |
| Additions | 138,319 | 505 | 3,198 | 300,142 | 104,829 | 4,342 | 551,335 |
| Acquisition of subsidiaries | - | - | 885 | - | 5,688 | - | 6,573 |
| Transfers | (1,459,860) | 1,122,169 | - | 3,800 | 333,891 | - | - |
| Disposal of a subsidiary | - | (22,026) | (361) | (141,669) | (2,490) | - | (166,546) |
| Disposals | - | (3,182) | (136,825) | (229,917) | (166,714) | (5,453) | (542,091) |
| At 31 December 2003 | - | 1,245,659 | 96,697 | 1,475,698 | 603,340 | 37,773 | 3,459,167 |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2003 | - | 11,200 | 188,500 | 938,025 | 259,928 | 30,363 | 1,428,016 |
| Exchange differences | - | 103 | 962 | 5,133 | 1,661 | 265 | 8,124 |
| Charge for the year | - | 32,417 | 14,409 | 134,435 | 49,524 | 4,534 | 235,319 |
| Impairment charge | - | - | - | 15,927 | 51 | - | 15,978 |
| Acquisition of subsidiaries | - | - | 842 | - | 4,488 | - | 5,330 |
| Transfers | - | - | - | 2,312 | (2,312) | - | - |
| Disposal of a subsidiary | - | (3,440) | (322) | (59,827) | (941) | - | (64,530) |
| Written back on disposals | - | (460) | (136,747) | (229,000) | (162,908) | (5,186) | (534,301) |
| At 31 December 2003 | - | 39,820 | 67,644 | 807,005 | 149,491 | 29,976 | 1,093,936 |
| Net book value | | | | | | | |
| At 31 December 2003 | - | 1,205,839 | 29,053 | 668,693 | 453,849 | 7,797 | 2,365,231 |
| At 31 December 2002 | 1,321,541 | 135,056 | 39,875 | 597,128 | 64,858 | 8,193 | 2,166,651 |

Notes:

- (i) The net book value of leased assets as at 31 December 2003 comprised furniture, fixtures and equipment of HK\$4,000 (2002: HK\$107,000) and motor vehicles of HK\$24,000 (2002: HK\$112,000).
- (ii) At 31 December 2003, fixed assets with net book value amounting to HK\$107,292,000 (2002: HK\$106,597,000) were pledged as security for the group's short term loans and long term liabilities.
- (iii) The cost of construction in progress comprises premium paid for the land registered in Hong Kong at Tseung Kwan O Town Lot Number 39 and expenditures incurred on the development of buildings. The land has a lease term of 48 years and will be expired on 27 June 2047. This project has been completed and the associated costs transferred to land and buildings and furniture, fixtures and equipment in 2003.

NOTES TO THE ACCOUNTS (Continued)

13 FIXED ASSETS (Continued)

(a) Group (Continued)

(iv) As at 31 December 2003, interest capitalised in land & building and other fixed assets amounted to HK\$19,859,000 (2002: HK\$17,788,000) and HK\$5,157,000 (2002: HK\$5,157,000) respectively.

(v) No depreciation is provided for studio, broadcasting and transmission equipment with cost of HK\$44,779,000 (2002: HK\$198,697,000) and furniture, fixture and equipment with cost of HK\$18,802,000 (2002: nil) as they cannot be put to effective use at the year end.

(vi) The group's interests in land and buildings at their net book values are analysed as follows:

| | 2003 | 2002 |
|---|------------------|----------|
| | HK\$'000 | HK\$'000 |
| Outside Hong Kong, freehold | 114,732 | 116,317 |
| In Hong Kong, lease of between 10 to 50 years | 1,091,107 | 18,739 |
| | 1,205,839 | 135,056 |

(b) Company

| | Construction in progress | Land and buildings in Hong Kong, lease of between 10-50 years | Leasehold improvements | Studio, broadcasting and transmitting equipment | Furniture, fixtures and equipment | Motor vehicles | Total |
|---------------------------------|--------------------------------|--|---------------------------|---|--|-------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost | | | | | | | |
| At 1 January 2003 | 1,321,541 | - | 147,180 | 972,916 | 214,991 | 26,742 | 2,683,370 |
| Additions | 138,319 | - | - | 277,172 | 89,800 | 4,343 | 509,634 |
| Transferred from subsidiaries | - | - | - | - | 210 | - | 210 |
| Transferred to subsidiaries | - | - | - | (12,174) | (1,975) | - | (14,149) |
| Transfers | (1,459,860) | 1,122,169 | - | - | 337,691 | - | - |
| Disposals | - | - | (132,994) | (195,159) | (145,921) | (4,320) | (478,394) |
| At 31 December 2003 | - | 1,122,169 | 14,186 | 1,042,755 | 494,796 | 26,765 | 2,700,671 |
| Accumulated depreciation | | | | | | | |
| At 1 January 2003 | - | - | 144,759 | 645,100 | 193,160 | 22,001 | 1,005,020 |
| Charge for the year | - | 31,062 | 2,421 | 80,080 | 33,144 | 2,733 | 149,440 |
| Transferred from subsidiaries | - | - | - | - | 131 | - | 131 |
| Transferred to subsidiaries | - | - | - | (12,129) | (1,975) | - | (14,104) |
| Written back on disposals | - | - | (132,994) | (194,369) | (144,856) | (4,320) | (476,539) |
| At 31 December 2003 | - | 31,062 | 14,186 | 518,682 | 79,604 | 20,414 | 663,948 |
| Net book value | | | | | | | |
| At 31 December 2003 | - | 1,091,107 | - | 524,073 | 415,192 | 6,351 | 2,036,723 |
| At 31 December 2002 | 1,321,541 | - | 2,421 | 327,816 | 21,831 | 4,741 | 1,678,350 |

NOTES TO THE ACCOUNTS (Continued)

13 FIXED ASSETS (Continued)

(b) Company (Continued)

Notes:

- (i) The cost of construction in progress comprises premium paid for the land registered in Hong Kong at Tseung Kwan O Town Lot Number 39 and expenditures incurred on the development of buildings. The land has a lease term of 48 years and will be expired on 27 June 2047. This project has been completed and the associated costs transferred to land and buildings and furniture, fixtures and equipment in 2003.
- (ii) As at 31 December 2003, interest capitalised in land and building amounted to HK\$19,859,000 (2002: HK\$17,788,000).
- (iii) No depreciation is provided for studio, broadcasting and transmission equipment with cost of HK\$44,779,000 (2002: HK\$198,697,000) and furniture, fixtures and equipment with cost of HK\$18,802,000 (2002: nil) as they cannot be put to effective use as at year end.

14 SUBSIDIARIES

| | Company | |
|--------------------------------------|------------------|-----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 693 | 693 |
| Amounts due from subsidiaries (note) | 619,798 | 554,304 |
| Amounts due to subsidiaries (note) | (284,469) | (56,545) |
| | 336,022 | 498,452 |

Note: The amounts due from/(to) the subsidiaries are unsecured and interest free, and have no fixed terms of repayment.

Details of the subsidiaries are listed in note 37.