Notes to Financial Statements

1. CORPORATE INFORMATION

The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- development and operation of, and investment in media, entertainment, Internet and technology-oriented businesses;
- the provision of advertising agency services;
- hotel management operations (discontinued during the year — note 7);
- satellite television operations; and
- sale of cosmetic products.

2. BASIS OF PRESENTATION

The Group recorded a net loss attributable to shareholders of approximately HK$93 million for the year ended 31st December, 2003 (2002: HK$69 million). As at 31st December, 2003, the Group had consolidated net current liabilities of HK$172 million (2002: net current assets of HK$5 million), consolidated accumulated losses of HK$2,336 million (2002: HK$2,243 million) and consolidated net assets of HK$1,779 million (2002: HK$1,822 million).

Included in the net current liabilities of HK$172 million were bank loans of HK$19 million, loans from a related company and directors aggregating HK$101 million and other loans of HK$45 million (the "Loan Providers"), all of which are scheduled to mature within the next 12 months from the balance sheet date.

In order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Group has adopted and is in the process of implementing the following measures:

(a) the Group will continue to seek the creditors' and the Loan Providers' ongoing support to the Group;

(b) the Group is endeavouring to recover the amount due from Furama Hotel Enterprises Limited, together with the related interest income thereon (see note 20); and

(c) the Group has been taking action to tighten cost controls over various general and administrative expenses and to explore profitable business opportunities.

Notes to Financial Statements

31st December, 2003

2. BASIS OF PRESENTATION (continued)

In the opinion of the directors, in light of the measures taken to date and the expected outcome of other measures in progress as planned, including the attainment of profitable and positive cash flow operations, the Group will have sufficient working capital and cash resources to meet its financial obligations in full as they fall due in the foreseeable future. On this basis, the directors of the Company consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Company and the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

3. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. It prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 12 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

Notes to Financial Statements

31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 to 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/ amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the unexpired lease terms
Buildings	2.5% — 5.0%
Leasehold improvements	Over the terms of the leases
Furniture, fixtures and equipment	20.0%
Broadcast operations and engineering equipment	10.0%
Motor vehicles	10.0% — 20.0%
Computers	10.0% — 20.0%

Construction in progress represents a building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Long term investments

Long term investments comprise non-trading investments in unlisted equity securities intended to be held for an identified long term purpose. Long term investments are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. Where the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Self-produced programmes

Self-produced programmes are stated at cost less any impairment losses. Cost comprises direct expenditure and an attributed portion of direct production overheads. The relevant portion of the cost of self-produced programmes is charged to the profit and loss account in accordance with the number of episodes broadcast in the financial year.

Purchased programme rights

Purchased programme rights, which represent entitlements under contracts to receive and broadcast programmes, are stated at cost less any impairment losses. The cost of purchased programme rights is charged to the profit and loss account upon the first broadcasting of the programmes and in accordance with the number of episodes broadcast in the financial year.

Film rights

Film rights are certain rights to completed films acquired from outsiders and are stated at cost less accumulated amortisation and any impairment losses.

Film rights are amortised proportionately to the estimated projected revenues over their economic beneficial period subject to a maximum period of 10 years. Estimated projected revenues are reviewed on a film-by-film basis at a regular interval. Additional amortisation or impairment will be charged if future estimated projected revenues adversely differ from the previous estimation.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) hotel management fee income, in the period in which such management services are rendered;

(b) advertising agency fee income, in the period in which such advertising services are rendered;

(c) programme distribution fee income is recognised when the master audio and visual materials have been delivered to the licensee for immediate exploitation of programmes;

(d) turnover from entertainment events organised by the Group is recognised when the events are completed;

(e) net income shared from entertainment events organised by other co-investors is recognised when the events are completed;

(f) Internet maintenance service fee income is recognised when services are rendered;

(g) television technical service fee income is recognised when services are rendered;

(h) income from the sale of short term investments is recognised on the transaction date when the relevant contract is entered into;

(i) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(j) artiste management fee income is recognised when the services are provided;

(k) turnover from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(l) for films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment of film rights for a fixed fee or non-refundable guarantee under a non-cancellable contract which permits the licensee to exploit those rights freely is made and the Group has no remaining obligations to perform, revenue is recognised when the film materials have been delivered to the licensees. Revenue recognised is limited to the amount of consideration received and subject to due allowance for contingencies; and

(m) for films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, revenue is recognised over the licence period and when the films are available for showing or telecast.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Employee benefits

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the Group's accumulated losses.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

— except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

— except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by the amount that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the hotel management segment engaged in the provision of management services to hotels (discontinued during the year);

(b) the media and entertainment segment engages in investment in and the production of entertainment events, the provision of artiste management services, the operation of websites and the licensing of motion pictures and films;

(c) the satellite television segment engages in the television broadcasting business, including the production of television programmes and the operation of a satellite television channel;

(d) the advertising agency segment engages in the provision of advertising agency services, primarily in respect of advertisements on television and in newspapers; and

(e) the corporate and other segment comprises the debt advanced to FHEL (as defined in note 20) of approximately HK$1,500,040,000, further details of which are included in note 20 to the financial statements, sale of cosmetic products, together with corporate income and expense items.

Notes to Financial Statements

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5. SEGMENT INFORMATION (continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers during the year (2002: Nil).

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	(Discontinued operations) Hotel management		Media and entertainment		Satellite television		Advertising agency		Corporate and other		Consolidated	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Segment revenue:												
Sales to external customers	3,470	7,426	21,430	113,908	2,355	793	64,291	54,151	6,258	—	97,804	176,278
Other revenue	—	1,081	1,092	2,006	23	15	643	259	46	75,896	1,804	79,257
Total	3,470	8,507	22,522	115,914	2,378	808	64,934	54,410	6,304	75,896	99,608	255,535
Segment results	2,985	7,870	1,563	(25,545)	(67,068)	(60,660)	214	(284)	(47,687)	52,731	(109,993)	(25,888)
Unallocated interest and other gains											136	3,535
Gain on disposal of discontinued operations	10,361	—									10,361	—
Gain on disposal of interests in associates			30,288	532					1,635	—	31,923	532
Gain/(loss) on disposal of short term investments									14	(285)	14	(285)
Unrealised holding gain/(loss) on short term investments									36	(291)	36	(291)
Loss on disposal of a long term investment									—	(501)	—	(501)
Impairment of a long term investment			—	(4,681)							—	(4,681)
Loss from operating activities											(67,523)	(27,579)
Finance costs											(4,296)	(1,708)
Amortisation of goodwill on acquisition of an associate			(2,214)	—							(2,214)	—
Provisions for amounts due from jointly-controlled entities			(1,050)	(6,530)							(1,050)	(6,530)
Share of profits and losses of:												
Associates			(12,520)	(31,530)							(12,520)	(31,530)
Jointly-controlled entities			(1,972)	(2,113)							(1,972)	(2,113)
Loss before tax											(89,575)	(69,460)
Tax											(3,129)	985
Loss before minority interests											(92,704)	(68,475)
Minority interests											(3)	(324)
Net loss attributable to shareholders											(92,707)	(68,799)
Segment assets	—	2,418	215,358	161,368	145,184	151,063	24,344	13,296	1,521,155	1,523,449	1,906,041	1,851,594
Interests in associates	—	—	113,053	48,903	—	—	—	—	—	—	113,053	48,903
Interests in jointly-controlled entities	—	—	1,463	779	—	—	—	—	—	—	1,463	779
Unallocated assets											98	2,683
Total assets											2,020,655	1,903,959
Segment liabilities	—	500	26,684	9,587	14,109	3,215	21,464	14,746	8,121	5,421	70,378	33,469
Unallocated liabilities											171,235	48,278
Total liabilities											241,613	81,747
Other segment information:												
Depreciation	—	—	1,967	2,404	10,455	10,947	32	24	303	453	12,757	13,828
Amortisation of goodwill on acquisition of an associate	—	—	2,214	—	—	—	—	—	—	—	2,214	—
Amortisation of film rights	—	—	2,591	—	—	—	—	—	—	—	2,591	—
Amortisation of self-produced and purchased programmes	—	—	666	5,934	—	—	—	—	—	—	666	5,934
Impairment of fixed assets	—	—	—	—	21,011	—	—	—	—	—	21,011	—
Provision for bad and doubtful debts	—	—	112	200	—	30	—	—	—	1,319	112	1,549
Write-back of provisions for bad and doubtful debts	—	—	—	—	—	—	—	—	1,081	9,287	1,081	9,287
Provision for an amount due from an associate	—	—	—	2,702	—	—	—	—	—	—	—	2,702
Impairment loss of self-produced and purchased programmes	—	—	—	6,661	—	—	—	—	—	—	—	6,661
Capital expenditure	—	—	51	243	23,688	25,533	27	113	130	194	23,896	26,083

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		PRC-Mainland (including Macau)		Other areas		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**33,699**	127,171	**60,635**	41,681	**3,470**	7,426	**97,804**	176,278
Other segment information:								
Segment assets	**1,936,149**	1,853,323	**84,018**	45,127	**390**	2,826	**2,020,557**	1,901,276
Unallocated assets							**98**	2,683
Total assets							**2,020,655**	1,903,959
Capital expenditure	**141**	3,311	**23,755**	22,772	**—**	—	**23,896**	26,083

Notes to Financial Statements

31st December, 2003

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year.

		Group	
		2003	2002
	Notes	**HK$'000**	HK$'000
Rental expense paid to a related company (a)	(i)	**—**	2,525
Hotel management, royalty and marketing fees received from hotels held by related companies (a)	(ii)	**3,470**	7,426
Hotel management fees paid to a related company (a)	(iii)	**783**	1,353
Interest income on an amount due from Furama Hotel Enterprises Limited (note 20)		**—**	75,002
Interest income from an associate	(iv)	**—**	3,293
Programme production costs paid to a jointly-controlled entity	(v)	**—**	26,754
Purchases of film rights from an associate	(vi)	**124,000**	107,220
Distribution and licence fee income from an associate	(vii)	**9,269**	8,048
Advertising income from a related company (a)	(viii)	**—**	1,800
Concert production fee paid to a jointly-controlled entity	(ix)	**—**	8,613

(a) The related companies are subsidiaries of Lai Sun Development Company Limited ("LSD"), which is a substantial shareholder holding a 42.54% equity interest in the Company at the balance sheet date.

6. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The rental was charged with reference to market rates.

(ii) The hotel management, royalty and marketing fees are charged to the hotels at certain percentages ranging from 3% to 5% (2002: 1% to 10%) on the gross revenue or operating profits of the hotels.

(iii) The hotel management fees paid are charged at certain percentages ranging from 1.5% to 1.8% (2002: 1.5% to 1.8%) on the gross revenue of the hotels.

(iv) The interest income from an associate was charged at 1% above the prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited (the "HSBC prime rate") per annum or at the HSBC prime rate per annum.

(v) The programme production costs were charged based on the actual cost incurred plus a margin as agreed.

(vi) The film rights were purchased from an associate of the Group pursuant to the terms as stipulated in the sale and purchase agreement.

(vii) The distribution and licence fee income was charged to an associate based on contract terms.

(viii) The advertising income was charged to a related company with reference to the market rates.

(ix) The concert production fee paid to a jointly-controlled entity was based on contract terms.

7. DISCONTINUED OPERATIONS

As detailed in note 17, GHRV (as defined in note 17), a wholly-owned subsidiary of the Group, was disposed of during the year.

The Group's business of the provision of management services to hotels (the "hotel management operations") was conducted through GHRV and therefore the Group's hotel management operations was discontinued on its disposal, which resulted in a gain on disposal of HK$10,361,000. The directors consider that the disposal of GHRV is to divest the Group's non-core business.

The turnover, other revenue, expenses and results of the hotel management operations for the two years ended 31st December, 2003 were as follows:

	2003 HK$'000	2002 HK$'000
TURNOVER	3,470	7,426
Cost of sales	(783)	(1,362)
Gross profit	2,687	6,064
Other revenue	—	1,081
Administrative expenses	(264)	(411)
Other operating gains, net	562	1,136
Gain on disposal of discontinued operations (note 34(c))	10,361	—
PROFIT BEFORE TAX	13,346	7,870
Tax	—	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	13,346	7,870

Notes to Financial Statements

31st December, 2003

7. DISCONTINUED OPERATIONS (continued)

The carrying amounts in the Group's consolidated balance sheet of the total assets and liabilities relating to the discontinued operations as at 31st December, were as follows:

	2003 HK$'000	2002 HK$'000
Total assets	—	2,418
Total liabilities	—	(500)
Net assets	—	1,918

8. TURNOVER AND REVENUE

An analysis of turnover and other revenue is as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Turnover		
Advertising income	64,291	54,151
Hotel management fee income	3,470	7,426
Distribution and licence fee income	13,784	18,324
Entertainment event income	4,736	94,277
Internet maintenance service fee income	909	1,307
Television technical service income	1,576	793
Sale of cosmetic products	6,258	—
Artiste management fee income	2,780	—
	97,804	176,278
Other revenue		
Interest income	136	78,536
Others	1,804	4,256
	1,940	82,792
	99,744	259,070

Notes to Financial Statements

9. LOSS FROM OPERATING ACTIVITIES

	Notes	Group 2003 HK$'000	2002 HK$'000
The Group's loss from operating activities is arrived at after charging/(crediting):			
Cost of film rights and license rights		**12,082**	6,429
Cost of self-produced and purchased programmes		**27,300**	50,813
Cost of services provided		**66,139**	146,879
Cost of inventories sold		**6,769**	—
Total cost of sales		**112,290**	204,121
Staff costs:			
Wages and salaries ** (including directors' emoluments — see note 11)		**61,932**	63,992
Pension contributions		**1,478**	1,058
		63,410	65,050
Auditors' remuneration		**800**	900
Depreciation **	15	**12,757**	13,828
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events #		**248**	4,374
Others		**3,047**	3,184
Contingent rents incurred for entertainment events #		**780**	11,860
Total operating lease payments		**4,075**	19,418
Impairment of a long term investment*		**—**	4,681
Loss on disposal of a long term investment *		**—**	501
Impairment loss of self-produced and purchased programmes*		**—**	6,661
Amortisation of self-produced and purchased programmes***		**666**	5,934
Amortisation of film rights ***	21	**2,591**	—
Provision for an amount due from an associate *		**—**	2,702
Unrealised holding loss/(gain) on short term investments *		**(36)**	291
Loss/(gain) on disposal of short term investments		**(14)**	285
Provision for bad and doubtful debts *		**112**	1,549
Loss on disposal of fixed assets *		**196**	224
Impairment of fixed assets *	15	**21,011**	—
Share of net income from entertainment events organised by other co-investors *		**(551)**	(2,245)
Write-back of provisions for bad and doubtful debts *		**(1,081)**	(9,287)
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited *	35(a)	**—**	(12,096)

* These items are included in the "Other operating gains/(expenses), net" as shown on the face of the consolidated profit and loss account.

** Wages and salaries amounting to HK$8,810,000 (2002: HK$10,366,000) and a depreciation charge of HK$6,997,000 (2002: HK$4,832,000) are also included in the amount of the cost of sales.

*** These items are included in the cost of sales.

\# These items are included in the cost of sales. The contingent rents are charged based on a certain percentage of the gross ticket proceeds collected in respect of the entertainment events.

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10. FINANCE COSTS

	Group 2003 HK$'000	Group 2002 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**2,396**	968
Interest on loans from directors and a related company	**1,513**	349
Interest on finance leases	**12**	16
Refinancing charges of bank loans	**375**	375
	4,296	1,708

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Fees	**480**	480
Other emoluments:		
Basic salaries, bonuses, housing and other allowances, and benefits in kind	**15,571**	22,994
Pension scheme contributions	**202**	215
	16,253	23,689

Directors' fees of HK$480,000 (2002: HK$480,000) were paid to two (2002: two) independent non-executive directors during the year.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The number of directors whose emoluments fell within the following bands is as follows:

	Group Number of directors	
	2003	2002
Nil — HK$1,000,000	**10**	10
HK$1,000,001 — HK$1,500,000	**1**	2
HK$2,000,001 — HK$2,500,000	**1**	1
HK$3,500,001 — HK$4,000,000	**—**	1
HK$10,500,001 — HK$11,000,000	**1**	—
HK$12,000,001 — HK$12,500,000	**—**	1
	13	15

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

(b) Employees' emoluments

The five highest paid employees during the year included two (2002: three) directors, the details of whose emoluments are set out above. Details of the remuneration of the remaining three (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,180**	3,470
Pension scheme contributions	**114**	50
	6,294	3,520

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group Number of employees	
	2003	2002
HK$1,500,001 — HK$2,000,000	**2**	2
HK$2,000,001 — HK$2,500,000	**1**	—
	3	2

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12. TAX

No provision for Hong Kong profits tax has been provided as there were no assessable profits generated during the year. Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong in the prior year. During the year, Hong Kong profits tax rate was increased from 16% to 17.5% and became effective from the year of assessment 2003/2004, and so is applicable to the whole of the year ended 31st December, 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK$'000	HK$'000
Provision for tax for the year:		
Hong Kong	**—**	4,723
Elsewhere	**50**	162
Deferred	**—**	661
	50	5,546
Prior years' under/(over)provisions:		
Hong Kong	**(24)**	(6,892)
Elsewhere	**2**	(662)
	(22)	(7,554)
Share of tax attributable to:		
Associates	**3,073**	1,023
Jointly-controlled entities	**28**	—
	3,101	1,023
Total tax charge/(credit) for the year	**3,129**	(985)

12. TAX (continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries, associates and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2003		2002	
	HK$'000	%	HK$'000	%
Loss before tax	(89,575)		(69,460)	
Tax at the statutory tax rate	(15,676)	(17.5)	(11,114)	(16.0)
Adjustments in respect of current tax of previous periods	(22)	0.0	(7,554)	(10.9)
Income not subject to tax	(8,626)	(9.6)	(5,796)	(8.3)
Expenses not deductible for tax	20,503	22.9	12,459	17.9
Estimated tax losses utilised from previous periods	(1,989)	(2.2)	(33)	0.0
Estimated tax losses not recognised	8,939	9.9	11,053	15.9
Tax charge/(credit) at the Group's effective rate	3,129	3.5	(985)	(1.4)

No deferred tax has been provided as the Group and the Company did not have any significant temporary differences which gave rise to a deferred tax asset or liability at the balance sheet date for both years presented.

The Group has tax losses arising in Hong Kong of HK$609,101,000 (2002: HK$563,538,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31st December, 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

13. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31st December, 2003 dealt with in the financial statements of the Company was HK$99,572,000 (2002: HK$136,185,000) (note 33).

Notes to Financial Statements

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14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$92,707,000 (2002: HK$68,799,000), and the weighted average of 623,787,668 (2002: 571,184,927) ordinary shares in issue throughout the year.

Diluted loss per share amounts for the years ended 31st December, 2003 and 2002 have not been shown as no diluting events existed during these years.

15. FIXED ASSETS

Group

	31st December, 2002 HK$'000	Additions HK$'000	Arising from acquisition of subsidiaries HK$'000	Disposals HK$'000	Impairment HK$'000	Exchange realignment HK$'000	**31st December, 2003 HK$'000**
Cost:							
Construction in progress	34,661	23,674	—	—	—	—	**58,335**
Land and buildings	75,000	—	—	—	—	—	**75,000**
Leasehold improvements	26,670	68	—	—	—	—	**26,738**
Furniture, fixtures and equipment	3,743	58	482	(207)	—	(3)	**4,073**
Broadcast operations and engineering equipment	24,820	—	—	—	—	—	**24,820**
Motor vehicles	276	—	601	—	—	(2)	**875**
Computers	14,042	96	168	—	—	(2)	**14,304**
	179,212	23,896	1,251	(207)	—	(7)	**204,145**
Accumulated depreciation and impairment:							
Land and buildings	2,903	1,935	—	—	—	—	**4,838**
Leasehold improvements	9,931	5,049	—	—	11,531	—	**26,511**
Furniture, fixtures and equipment	1,783	555	244	(11)	906	(1)	**3,476**
Broadcast operations and engineering equipment	3,668	2,481	—	—	4,596	—	**10,745**
Motor vehicles	65	55	541	—	—	(2)	**659**
Computers	6,862	2,682	143	—	3,978	—	**13,665**
	25,212	12,757	928	(11)	21,011	(3)	**59,894**
Net book value	154,000						**144,251**

15. FIXED ASSETS (continued)

The Group's land and buildings are situated in Hong Kong, held under medium term leases and were pledged to secure general banking facilities granted to the Group (note 28).

The net book value of assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2003, amounted to HK$78,000 (2002: HK$110,000).

The cost of the construction in progress comprises the premium paid for land registered in Macau under a medium term lease and expenditure incurred for the development of a building constructed thereon.

The operation of the Group's satellite television business has incurred losses since 2000. The directors have evaluated the business activity and future performance of the satellite television business and considered that the fixed assets used in this business were impaired. Accordingly, an impairment loss of the fixed assets of HK$21,011,000 was charged to the consolidated profit and loss account in the current year. The impairment loss was determined by the directors of the Group with reference to the net selling price of the fixed assets obtained from the market as at the balance sheet date.

16. LONG TERM INVESTMENTS

	Group	
	2003	2002
	HK$'000	HK$'000
Unlisted equity investments, at cost	**4,681**	4,681
Provisions for impairment	**(4,681)**	(4,681)
	—	—

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**997,700**	1,092,730
Amounts due from subsidiaries	**2,658,517**	2,727,843
	3,656,217	3,820,573
Provisions for impairment	**(1,809,665)**	(2,082,814)
	1,846,552	1,737,759

Notes to Financial Statements

17. INTERESTS IN SUBSIDIARIES (continued)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the prior year, certain amounts due from subsidiaries were interest-bearing as set out below:

(i) an amount of HK$2,548,000, which bore interest at 15% per annum;

(ii) an amount of HK$11,000,000, which bore interest at 1% above the HSBC prime rate per annum; and

(iii) an amount of HK$1,500,040,000, which bore interest at 1% per annum.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective % of capital held by Company	Effective % of capital held by Group	Principal activities
East Asia Entertainment Limited	Hong Kong	HK$2 Ordinary	—	100	Entertainment activity production
East Asia Satellite Television Limited	Hong Kong	HK$2 Ordinary	—	100	Programme production, distribution and broadcasting
East Asia-Televisão Por Satélite, Limitada*	Macau	MOP$25,000 Quota	—	100	Programme production, distribution and broadcasting
Glynhill International Limited	Hong Kong	HK$912,623,351 Ordinary	100	100	Investment holding
Golden Pool Enterprise Limited	Hong Kong	HK$2 Ordinary	—	100	Investment holding
Guangzhou Beautifirm Cosmetic Limited* ##	Mainland China	US$1,260,000#	—	100	Sale of cosmetic products

17. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective % of capital held by Company	Group	Principal activities
Kaleidoscope International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Property holding
Lai Sun Technology Company Limited	Hong Kong	HK$2 Ordinary	—	100	Provision of Internet maintenance services
Rich & Famous Talent Management Group Limited	Hong Kong	HK$100 Ordinary	—	75	Provision of artiste management services
Skymaster International Inc.	British Virgin Islands	US$1 Ordinary	100	100	Investment holding
Vision Advertising (HK) Limited	Hong Kong	HK$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited* ###	Mainland China	HK$3,000,000#	—	90	Provision of advertising agency services

\# The amount stated represents the paid-up capital in the People's Republic of China.

\## This subsidiary is a wholly-foreign owned enterprise.

\### This subsidiary is a co-operative joint venture.

* Audited by public accountants other than Ernst & Young.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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17. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(a) During the year, the Group entered into the following connected transactions with the related parties of which are subject to the disclosure requirements under Chapter 14 of the Listing Rules:

(i) On 8th November, 2002, the Company and LSD entered into an agreement pursuant to which the Company agreed to sell and LSD agreed to purchase, the entire issued share capital of Houseman International Limited ("HIL"), a wholly-owned subsidiary of the Company which holds a 50% equity interest in HKATV.com Limited, for a consideration of HK$46,080,000 (the "Consideration"). On the same date, LSD entered into a conditional agreement (the "DGI Agreement") with Dragon Goodwill International Limited ("DGI") to sell to DGI the entire share capital of HIL together with LSD's 32.75% interest in Asia Television Limited ("ATV") (the "ATV Transaction").

On 14th May, 2003, the Company and LSD entered into a supplemental agreement pursuant to which the Consideration was reduced to HK$33,580,000. On the same date, LSD and DGI entered into a supplemental agreement pursuant to which the consideration for the ATV Transaction was also reduced. The above transactions were completed on 25th July, 2003 and the Group recorded a gain on disposal of an associate of HK$30,288,000.

(ii) On 26th September 2003, Delta Asia Limited ("DAL"), a wholly-owned subsidiary of the Company, and Furama Hotels and Resorts International Limited ("FHRI"), a wholly-owned subsidiary of LSD, entered into an agreement pursuant to which DAL agreed to sell and FHRI agreed to purchase, the entire issued share capital of Glynhill Hotels and Resorts (Vietnam) Pte Ltd ("GHRV"), a wholly-owned subsidiary of DAL which holds the hotel management rights of the Caravelle Hotel, for a consideration of HK$10,300,000. The transaction was completed on 31st October, 2003. Further details of this disposal are included in note 34(c) to the financial statements.

(b) On 15th May, 2003, the Company and Ducburg Limited ("Ducburg"), a subsidiary of LSD, entered into an agreement pursuant to which the Company agreed to purchase and Ducburg agreed to sell, the entire issued share capital of Biu Kei Investment Limited, for a consideration of HK$270,000. Further details of this acquisition are included in note 34(b) to the financial statements.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net liabilities	**(6,771)**	(4,771)
Amounts due from jointly-controlled entities	**15,814**	12,080
	9,043	7,309
Provisions for amounts due from jointly-controlled entities	**(7,580)**	(6,530)
	1,463	779

Except for an amount of HK$13,129,000 (2002: HK$11,000,000) which is interest-bearing at 1% above the HSBC prime rate per annum, the amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of jointly-controlled entities are as follows:

Name of Company	Business structure	Place of incorporation/ operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
The Artiste Campus International Limited	Corporate	Hong Kong	50%	50%	50%	Provision of agency services to artistes
Much Entertainment Limited	Corporate	Hong Kong	50%	50%	50%	Provision of concert production services
Good Friends Limited ("Good Friends")	Corporate	Hong Kong	50%	50%	Note	Entertainment activity production

The interests in jointly-controlled entities are indirectly held by the Company.

Note: The profit sharing ratio for each entertainment activity operated by Good Friends, ranging from 30% to 60%, is stated in the joint venture agreement.

19. INTERESTS IN ASSOCIATES

	Group 2003 HK$'000	Group 2002 HK$'000	Company 2003 HK$'000	Company 2002 HK$'000
Share of net assets	**92,280**	36,708	**—**	—
Goodwill on acquisition, net of amortisation	**19,926**	—	**—**	—
	112,206	36,708	**—**	—
Amounts due from associates, net of provisions	**847**	3,388	**—**	1,012
Loans to associates, net of provisions	**—**	8,807	**—**	3,807
	113,053	48,903	**—**	4,819

19. INTERESTS IN ASSOCIATES (continued)

The balances with associates, including loans to associates, are unsecured, interest-free and have no fixed terms of repayment. In the prior year, (i) an amount of HK$807,000 bore interest at 1% above the HSBC prime rate per annum and (ii) HK$3,000,000 bore interest at the HSBC prime rate per annum.

On 15th May, 2003, the Group entered into an agreement with Double Classic Limited, Liu Wing Leung, Jerry and Chong Koon Nam, independent third parties (collectively referred to as the "Vendors"), pursuant to which the Company agreed to purchase and the Vendors agreed to sell the entire issued share capital of Splendid Agents Limited ("SAL") for a total consideration of HK$50,000,001 to be satisfied by the issue and allotment of 100,000,002 shares of the Company at par value of HK$0.5 each (the "Consideration"). The principal activity of SAL is investment holding. It holds 14.64% of the issued share capital of Media Asia Holdings Limited ("MAH"). Following the acquisition of SAL, the Group's equity interest in MAH has increased from 35.13% to 49.77%.

The Consideration was agreed based on the assessment of the financial performance of MAH as reflected in its profits in the past track records and its profit potential in the future, and the par and trading values of the shares of the Company.

Details of the principal associate are as follows:

Name of company	Business structure	Place of incorporation/ operations	Class of shares held	% of equity attributable to the Group	Principal activities
Media Asia Holdings Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	49.77%	Film production, distribution and investment holding

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED ("FHEL")

On 11th February, 1999, the Company and its wholly-owned subsidiary, Golden Pool Enterprise Limited ("GPEL"), entered into an agreement (the "Development Agreement") with LSD and its wholly-owned subsidiary, FHEL, with respect to the purchase by GPEL of the retail and hotel portions to be developed of the Furama Hotel Hong Kong ("the Furama Hotel"), which is a property under construction situated in Hong Kong to be redeveloped into a composite retail, hotel and office building (the "New Building"). The redevelopment was expected to be completed in or around May 2004.

20. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED ("FHEL") (continued)

The consideration of HK$1,900,000,000 for the purchase of the retail and hotel portion of the Furama Hotel was fully paid by GPEL to FHEL in 1999. According to the Development Agreement, the prepaid consideration bore interest at the higher of 8% or LIBOR plus 2% per annum for an amount of HK$964,923,000, and at the three-month deposit rate offered by the Group's principal banks plus 1% per annum for the remaining HK$935,077,000. The interest income received and receivable from the prepaid consideration during the year ended 31st December, 2000 was HK$69,787,000.

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the "Reorganisation Agreement"). Pursuant to the Reorganisation Agreement, the Development Agreement was cancelled on 29th June, 2000 upon approval by the shareholders of the Company and LSD. Accordingly, the prepaid consideration of HK$1,900,000,000 became immediately due from FHEL.

In connection with the Reorganisation Agreement, the Company transferred certain hotel and ancillary assets, through the disposal of certain subsidiaries, associates and a long term investment, with an aggregate value of HK$685,410,000, to LSD. At the same time, LSD transferred certain technology-oriented assets with an aggregate value of HK$1,085,370,000 to the Company. The excess consideration of HK$399,960,000 payable by the Company to LSD in respect of such assets transfer was deducted from the outstanding principal amount of indebtedness of HK$1,900,000,000, which FHEL owed to GPEL, as a result of the cancellation of the Development Agreement as mentioned above. The amount due from FHEL was therefore reduced to HK$1,500,040,000 (the "Debt").

An intercompany debt deed was entered into by the Company, LSD, FHEL and GPEL on 30th June, 2000 (the "Debt Deed"). Pursuant to the Debt Deed, the Company agreed to defer the settlement of the Debt to the earlier of 31st December, 2002 or the day on which the Exchangeable Bonds and Convertible Bonds 2002 of the LSD group were repaid in full and the Debt bore interest at 5% per annum. LSD guaranteed the repayment of the outstanding principal and accrued interest payable to GPEL. The Company was also entitled to share, on a pari passu and pro rata basis with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (the "Parties"), the following security and pledge:

(a) a limited recourse second charge over 6,500 shares of HK$1.00 each in the issued share capital of Diamond String Limited (which owns 100% of the equity interest of the Ritz-Carlton Hong Kong Hotel) beneficially owned by LSD; and

(b) a negative pledge (the "Negative Pledge") granted by LSD, pursuant to which LSD agreed not to create additional security over certain major properties of the LSD group without the prior consent of the Parties. The Negative Pledge lapsed in early 2003 according to the terms of the covenants and undertakings given by LSD.

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20. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED ("FHEL") (continued)

As at 31st December, 2003, the Debt due by FHEL remained outstanding and overdue. The directors have discussed the repayment of the Debt and the interest terms as from 1st January, 2003 with the management of FHEL and LSD, and obtained an understanding that LSD is currently working closely with its legal and financial advisors to formulate a plan for the settlement and/or repayment of the Debt due to the Group, the Exchangeable Bondholders and the Convertible Bondholders, and certain other borrowings. Pending the outcome of the LSD debt restructuring programme, the Group is uncertain as to the extent of the recovery of the Debt. The directors of the Company consider that the recoverable amount of the Debt is currently uncertain and, in the absence of reliable information, they are unable to estimate the amount of any specific provision against such balance at the current time. In light thereof, no interest income in respect of the Debt has been recognised in the current year because the directors of the Company are unable to estimate the amount of such interest income that may eventually be realised.

21. FILM RIGHTS

	Group HK$'000
Cost:	
At 1st January, 2003	113,109
Additions	87,137
At 31st December, 2003	200,246
Accumulated amortisation:	
At 1st January, 2003	—
Provided during the year	2,591
At 31st December, 2003	2,591
Net book value:	
At 31st December, 2003	197,655
At 31st December, 2002	113,109

On 24th December, 2001, the Group entered into various licence agreements (the "Agreements") with MAH and its subsidiaries (the "MAH Group"), to license from the MAH Group certain television rights (the "TV Rights"), in the People's Republic of China, including Hong Kong and Macau, for a total of 110 films for a period of 7.5 years, commencing from 24th December, 2001. Under the Agreements, the Group has the right to license all or any of its TV Rights to third parties. The cost of the TV Rights to the Group, after eliminating the Group's share of the unrealised gain recorded in the MAH Group in respect of this transaction, amounted to HK$37,366,000.

21. FILM RIGHTS (continued)

On 21st December, 2002, the Group entered into various supplemental agreements (the "Supplemental Agreements") with the MAH Group to extend the terms of the TV Rights for an additional 3 years. Upon entering into the Supplemental Agreements, the Group obtained the offer to acquire, and on 24th December, 2002 executed various deeds of assignments to effect the acquisition, from the MAH Group of all rights, interests in perpetuity to 96 films. Out of these said 96 films, the TV Rights of 90 films had already been licensed to the Group in 2001 and 2002 as mentioned above. After eliminating the Group's share of unrealised gain recorded in the MAH Group's accounts in respect of the above transactions, the cost to the Group to extend the terms of the TV Rights for 3 years and to acquire the 96 film rights as aforementioned amounted to HK$75,743,000.

During the year on 30th August, 2003, the Group entered into a deed of assignment with the MAH Group to acquire the 31 film rights (7 of which are jointly-owned by the Group and other investors), out of which the TV Rights of 18 films had already been licensed to the Group in 2001 and 2002 as mentioned above. After eliminating the Group's share of unrealised gain recorded in the MAH Group's accounts in respect of this transaction, the cost to the Group to acquire the 31 film rights as aforementioned amounted to HK$87,137,000.

As at 31st December, 2003, the film rights of the Group represented all rights, titles and interests in 127 films (the "127 Film Rights") with an aggregate carrying value of HK$197,541,000 and the TV Rights to another 2 films for a period of 10.5 years (the "2 TV Rights") of an aggregate carrying value of HK$114,000. The directors engaged Astoria Films Distribution Limited, an independent film distributor, to perform a valuation (the "Valuation") of the 127 Film Rights as at 31st December, 2003. Having regard to the Valuation, which indicated that the fair value of the Group's 127 Film Rights as at 31st December, 2003 was above their cost as stated in the Group's financial statements and having regard to the current market conditions, the directors are of the opinion that there was no impairment in the Group's film rights as at 31st December, 2003.

22. SHORT TERM INVESTMENTS

	Group	
	2003	2002
	HK$	HK$
Listed equity investments at market value:		
Hong Kong	**83**	46
Elsewhere	**—**	89
	83	135

23. LOAN RECEIVABLE

The loan represented an advance to an independent third party, which was secured by certain equity interests held by the borrower, bore interest at a rate of 15% per annum and was repaid during the year.

Notes to Financial Statements

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24. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. An aged analysis of the trade debtors as at 31st December, 2003 is as follows:

	Group	
	2003	2002
	HK$	HK$
Trade debtors:		
Less than 30 days	**8,220**	18,153
31 — 60 days	**3,548**	2,918
61 — 90 days	**126**	52
Over 90 days	**7,648**	9,355
	19,542	30,478
Other debtors and deposits	**18,524**	29,868
	38,066	60,346

The above aged analysis, stated net of provisions for doubtful debts, was prepared based on the dates when revenue is recognised from the trade transactions.

Included in trade debtors is an amount of HK$1,384,000 (2002: HK$3,050,000) due from the MAH Group arising from the ordinary course of business of the Group.

As at 31st December, 2002, included in trade debtors was an amount of HK$1,800,000 due from a subsidiary of LSD arising from the ordinary course of business of the Group.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**11,510**	11,467	**261**	115
Time deposits	**10,940**	7,259	**—**	—
	22,450	18,726	**261**	115

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,015,000 (2002: HK$2,315,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at 31st December, 2003 is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Trade creditors:		
Less than 30 days	**5,859**	4,808
31 — 60 days	**4,481**	2,992
61 — 90 days	**2,087**	398
Over 90 days	**35,976**	6,277
	48,403	14,475
Other creditors and accruals	**21,975**	19,620
	70,378	34,095

The above aged analysis was prepared based on the dates of receipt of the goods and services purchased.

Included in trade creditors aged over 90 days is an amount of HK$24,000,000 (2002: Nil) due to the MAH Group arising from the ordinary course of business of the Group.

Notes to Financial Statements

27. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment. These leases are classified as finance leases and have remaining lease terms of approximately two years.

At 31st December, 2003, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2003 HK$'000	Minimum lease payments 2002 HK$'000	**Present value of minimum lease payments 2003 HK$'000**	Present value of minimum lease payments 2002 HK$'000
Amounts payable:				
Within one year	**44**	44	**35**	31
In the second year	**44**	44	**41**	35
In the third to fifth years, inclusive	**1**	44	**1**	42
Total minimum finance lease payments	**89**	132	**77**	108
Future finance charges	**(12)**	(24)		
Total net finance lease payables	**77**	108		
Portion classified as current liabilities	**(35)**	(31)		
Long term portion	**42**	77		

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group and Company	
	2003	2002
	HK$'000	HK$'000
Secured bank loans	24,000	25,000
Unsecured other borrowings	45,200	—
	69,200	25,000
Bank loans repayable:		
Within one year	19,000	25,000
In the second year	5,000	—
	24,000	25,000
Other loans repayable:		
Within one year	45,200	—
	69,200	25,000
Portion classified as current liabilities	(64,200)	(25,000)
Long term portion	5,000	—

The bank loan was secured by fixed charges over the Group's land and buildings with an aggregate net book value at the balance sheet date of approximately HK$70,162,000 (2002: HK$72,097,000).

Other borrowings are unsecured, bear interest at 1% per month and are repayable within one year.

29. LOAN FROM A RELATED COMPANY

The loan from the related company is unsecured, interest-free and has no fixed terms of repayment except for an amount of HK$12,500,000 which bears interest at the HSBC prime rate per annum. A director of the Company is also a director of the related company.

30. LOANS FROM DIRECTORS

The balances are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK$80,750,000 which bears interest at the HSBC prime rate per annum. Last year's balance was unsecured, bore interest at 1% per month and was repayable within one year.

Notes to Financial Statements

31. SHARE CAPITAL

Shares

	2003		2002	
	Number of shares '000	**Nominal value HK$'000**	Number of shares '000	Nominal value HK$'000
Authorised:				
Ordinary shares of HK$0.50 each	**2,000,000**	**1,000,000**	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**671,185**	**335,592**	571,185	285,592

Movements in the Company's issued ordinary share capital are summarised as follows:

	Number of ordinary shares '000	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1st January, 2002, 31st December, 2002 and 1st January, 2003	571,185	285,592	2,888,633	3,174,225
Shares issued as consideration for the acquisition of additional interest in an associate (note 19)	100,000	50,000	—	50,000
Share issue expenses	—	—	(364)	(364)
At 31st December, 2003	671,185	335,592	2,888,269	3,223,861

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

The Company operates an employee share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible employees who contribute to the success of the Group's operations. Eligible employees of the Share Option Scheme include executive directors and other employees of the Company or any subsidiary. The Share Option Scheme was adopted by the Company on 25th November, 1996 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years.

No share options were outstanding as at 1st January, 2003 and 31st December, 2003. No share options were granted, exercised or cancelled or lapsed during the year. Consequent upon the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no further options may be granted under the Share Option Scheme unless such grant is made in compliance with the amended rules. As at the date of the annual report, no amended share option scheme has been adopted. The principal terms of the existing Share Option Scheme before amendment are:

(a) The maximum number of shares of the Company (the "Shares") in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme will not, when aggregated with any Shares subject to any other schemes, exceed such number of Shares as shall represent 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the Share Option Scheme.

(b) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

(c) An offer of the grant of an option shall remain open for acceptance by the employee concerned for a period of 28 days from the date upon which it is made. An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising the acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK$10 by way of consideration for the grant thereof, is received by the Company. An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme and the conditions of the grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.

(d) The subscription price shall be a price notified by the board of the Company to an employee being (i) not less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date; or (ii) the nominal value of the Shares, whichever is the higher.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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33. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2002		2,888,633	891,289	(2,174,187)	1,605,735
Exchange realignment		—	—	(522)	(522)
Loss for the year		—	—	(68,799)	(68,799)
At 31st December, 2002 and 1st January, 2003		2,888,633	891,289	(2,243,508)	1,536,414
Share issue expenses	31	(364)	—	—	(364)
Exchange realignment		—	—	(17)	(17)
Release of exchange fluctuation reserve upon disposal of a subsidiary	34(c)	—	—	(72)	(72)
Loss for the year		—	—	(92,707)	(92,707)
At 31st December, 2003		2,888,269	891,289	(2,336,304)	1,443,254
Retained by:					
Company and subsidiaries		2,888,269	891,289	(2,279,918)	1,499,640
Jointly-controlled entities		—	—	(6,771)	(6,771)
Associates		—	—	(49,615)	(49,615)
At 31st December, 2003		2,888,269	891,289	(2,336,304)	1,443,254
Company and subsidiaries		2,888,633	891,289	(2,197,111)	1,582,811
Jointly-controlled entities		—	—	(4,771)	(4,771)
Associates		—	—	(41,626)	(41,626)
At 31st December, 2002		2,888,633	891,289	(2,243,508)	1,536,414

Included in the debit balance of accumulated losses as at 31st December, 2003 are accumulated credit balances in respect of exchange realignment amounting to HK$19,917,000 (2002: HK$20,006,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.

33. RESERVES (continued)

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2002	2,888,633	845,455	(2,152,699)	1,581,389
Loss for the year	—	—	(136,185)	(136,185)
At 31st December, 2002 and 1st January, 2003	2,888,633	845,455	(2,288,884)	1,445,204
Share issue expenses (note 31)	(364)	—	—	(364)
Loss for the year	—	—	(99,572)	(99,572)
At 31st December, 2003	2,888,269	845,455	(2,388,456)	1,345,268

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation in November 1996, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) On 23rd June, 2003, the Company issued a total of 100,000,002 ordinary shares of HK$0.50 each as consideration for the acquisition of additional interest in an associate, as detailed in note 19.

(ii) During the year, loans from directors of HK$5,000,000 and a loan from a related company of HK$12,500,000 were applied to settle part of the consideration for the film rights acquired from the MAH Group.

(iii) During the year, the consideration for certain film rights acquired from the MAH Group by the Group of HK$6,000,000 (2002: HK$107,220,000) was settled through the loans due from an associate.

In respect of (ii) and (iii) above, details of the acquisition of film rights from the MAH Group are included in note 21 to the financial statements.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	Note	2003 HK$'000	2002 HK$'000
Net assets acquired:			
Fixed assets	15	323	—
Cash and bank balances		727	—
Inventories		2,590	—
Debtors and deposits		222	—
Creditors and accruals		(3,592)	—
		270	—
Satisfied by:			
Cash		270	—

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK$'000	2002 HK$'000
Cash consideration	(270)	—
Cash and bank balances acquired	727	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	457	—

The result of these subsidiaries acquired during the year had no significant impact on the Group's consolidated turnover or loss after tax for the year.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary

	Notes	2003 HK$'000	2002 HK$'000
Net assets disposed of:			
Release of exchange fluctuation reserve		(72)	—
		(72)	—
Gain on disposal of a subsidiary	7, 17	10,361	—
		10,289	—
Satisfied by:			
Cash consideration received, net of expenses		10,289	—

Details of the results of the subsidiary disposed of during the year are included in note 7 to the financial statements.

35. LITIGATION

(a) In 1998, the Group disposed of its 50% interest in Delta Hotels Limited ("DHL") to Canadian Pacific Hotels Corporation (the "Purchaser"). Under the terms of the sale and purchase agreement, C$10 million of the sales proceeds was held in escrow (the "Holdback Funds") pending the expiration of a warranty period.

The Purchaser also made an additional payment of C$14.5 million that was held in escrow in respect of potential increases in the purchase price (the "Earnout Funds").

The Purchaser made claims against the Holdback Funds in prior year. Subsequently, C$8 million of the Holdback Funds was released to the Group and the other owner (the "Vendors") during 2000. The Vendors commenced an action (the "Action") against the Purchaser for the remaining C$2 million and the Purchaser issued a counterclaim for the C$2 million.

Subsequently, the Action was expanded to include a claim by the Vendors for C$2.5 million of the Earnout Funds which had become disputed.

The Action had been settled in the prior year. Pursuant to the settlement, C$950,000 is payable to the Group in relation to the Holdback Funds and C$1,460,000 is payable to the Group in respect of the Earnout Funds. These amounts payable to the Group are for the principal only and are subject to adjustment for interest, commissions and withholding tax. In the prior year, C$2,419,200 was credited to the consolidated profit and loss account for this estimated recovery of the Holdback Funds and Earnout Funds.

Notes to Financial Statements

35. LITIGATION (continued)

(a) During the year, the Group has received C$1 million (approximately HK$5,745,000) in respect of the Holdback Funds and Earnout Funds. The remaining balance is currently held in a further escrow account (the "Escrow Money") for one year pending the expiry or resolution of other adverse claims. The directors consider that the Escrow Money will be received upon the expiry of the claims and no provision for doubtful debts is required.

(b) In 2002, a Writ of Summons was issued in the Court of First Instance by East Asia Entertainment Limited ("EAE"), a wholly-owned subsidiary of the Company, and Active Union Limited ("AUL"), a 70% owned subsidiary of the Company, against Australasian Entertainment Corporation Limited ("AEC"), the minority shareholder of AUL and other related parties claiming, inter alia, loss and damages (amounts to be assessed) suffered in holding an entertainment show known as "Spectaculum". AEC counterclaimed the unsettled expenditure incurred in the show in the sum of HK$1,486,779. The action has been inactive during the year. AEC is currently under winding-up by creditors and the directors will continue to review the situation for any further action. The directors consider that the outstanding claim should have no material adverse effect on the Group and no provision for the claim is required at this stage.

(c) In 2002, a Writ of Summons was issued in the Court of First Instance by Glynhill International Limited ("GIL"), a wholly-owned subsidiary of the Company, against two defendants, Belford Pacific Limited and Tse Wan Chung Philip ("Mr. Tse"), for a sum of US$156,900 (approximately HK$1,223,820) plus interest, being a loan (the "Loan") owed by the two defendants and assigned by the original lender of the loan in favour of GIL. Full provision for the Loan was made in the Group's financial statements in the prior years. During the year, the Group had obtained judgement in default of a defence against Mr. Tse and Mr. Tse has agreed to make periodic payments in settlement of the Loan. During the year, a total of HK$84,000 was received from Mr. Tse and credited to the consolidated profit and loss account.

36. COMMITMENTS

(a) Commitments not provided for in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments contracted for	**21,979**	42,441	**—**	—

In addition, the Group has committed to invest in the development of a television city with a programme production centre (the "Project") in Macau, the completion of which is scheduled in 2004 according to the agreement signed with the Macau government. The Group is currently in negotiation with the Macau government in respect of the terms and a delayed schedule of the Project. At 31st December, 2003, the authorised but not contracted for commitment in respect of this project amounted to HK$225,891,000 (2002: HK$225,891,000).

36. COMMITMENTS (continued)

(b) The Group leases certain of its office properties and a Macau production centre under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, and the lease term of the Macau production centre is twenty five years.

At 31st December, 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,289**	2,648	**—**	504
In the second to fifth years, inclusive	**4,213**	4,149	**—**	—
After five years	**14,592**	15,412	**—**	—
	21,094	22,209	**—**	504

(c) The Group has entered into an agreement to lease a satellite channel at an annual licence fee of US$800,000 for a term of twelve years. At 31st December, 2003, the total future minimum lease payments were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,207**	6,234	**—**	—
In the second to fifth years, inclusive	**24,826**	24,936	**—**	—
After five years	**24,580**	30,897	**—**	—
	55,613	62,067	**—**	—

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37. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD *(note)*	**25,000**	25,000	**25,000**	25,000
Guarantee given to a supplier in connection with credit facilities given to a subsidiary	**—**	—	**2,000**	2,000
	25,000	25,000	**27,000**	27,000

Note:

In connection with the Reorganisation Agreement described further in note 20, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. ("GIGC") to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.

GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the "Land") on which the golf club is situated, which showed unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.

The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use rights certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK$25,000,000. As at the date of this report, the land use rights referred to above had not been obtained by GIGC.

38. POST BALANCE SHEET EVENT

On 3rd January, 2004, the Company and Soundfield Holdings Limited ("SHL") entered into an agreement (the "Agreement"). Pursuant to the Agreement, the Company agreed to purchase and SHL agreed to sell the entire issued share capital of Active Light Limited, which holds certain industrial buildings (the "Properties") in Hong Kong and recorded other loan of HK$29,000,000 (the "Other Loan"), for a consideration of HK$300,000. The fair value of the Properties was estimated by the directors at approximately HK$29,000,000, which is the aggregate carrying amount of the Properties and the Properties were secured by a loan with the same amount. Certain of the Properties were subsequently disposed of for a consideration of HK$12,000,000. The Group repaid HK$8,000,000 of the Other Loan accordingly. No material gain was arisen from such disposal.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16th April, 2004.