

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The accounts are prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (revised)	:	Income Taxes
SSAP 34 (revised)	:	Employee Benefits

The adoption of these revised standards has no material impact to the accounts of the Company and the Group in the current and prior years, except for certain presentational changes.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Group, directly or indirectly, controls the composition of the board of directors, control more than half of the voting power or hold more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

The Company's investments in associated companies are carried at cost less provision for impairment losses, if any. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Where associated companies have financial year ends other than 31st March, their latest audited accounts made up to a date within six months before 31st March 2004 are used for equity accounting purposes.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

In accordance with SSAP 30, the Group accounts for goodwill on acquisitions occurring on or after 1st April 2001 as intangible assets and is amortised using the straight-line method over its estimated useful life of not more than 20 years in general.

Goodwill on acquisitions that occurred prior to 1st April 2001 was written off against reserves in the year of acquisition.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Goodwill *(continued)*

The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However, where an indication of impairment exists, such goodwill previously written off against reserves is accounted for in accordance with SSAP 31 and any impairment losses should be recognised as an expense in the profit and loss account in the period when such impairment loss is identified.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of or, for pre 1st April 2001 acquisitions, the related goodwill dealt with in the reserves to the extent it has not previously been realised in the profit and loss account.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write off the cost of the fixed assets less accumulated impairment losses over their estimated useful lives on a straight-line basis. The annual rates of depreciation adopted are as follows:

Buildings	2% – 4%
Furniture and fittings	10%
Equipment	10% – 20%
Motor vehicles	25%
Plant and machinery	10% – 20%

Leasehold land is depreciated over the unexpired period of the lease on a straight-line basis.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

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

(f) Inventories

Inventories comprise released films, unreleased films, raw materials and cost of processing works.

Released films are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation of released films is calculated at rates sufficient to write off the total cost of production in relation to expected revenues over a period of three years. Unreleased films, raw materials and cost of processing works are valued at cost less provision for impairment losses.

Cost of released films and unreleased films includes production costs comprising cost of services, facilities and raw materials consumed in the creation of a film. Raw materials and cost of processing works comprise raw films, chemicals, direct labour, costs of film processing and film remastering works and an appropriate proportion of all processing overhead expenditure.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and net with bank overdrafts.

(i) Employee benefits

(i) Employee leave entitlements

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

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits *(continued)*

(i) Employee leave entitlements *(continued)*

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

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group has a Mandatory Provident Fund Scheme (“MPF Scheme”) in accordance with the Mandatory Provident Fund Schemes Ordinance, the assets of which are held in a separately administered fund.

All permanent staff located in Hong Kong whose employment period reaches 60 days or more must join the MPF Scheme. The contributions to the MPF Scheme made by the Group for permanent staff is calculated at 5% of the individual’s “relevant income” as prescribed in the Mandatory Provident Fund Schemes Ordinance with a maximum amount of HK\$1,000 per month.

The Group’s contributions to the MPF Scheme are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

(iv) Long service payments

The Group’s net obligation in respect of long services amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the profit and loss account so as to spread the costs over the service lives of employees.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits *(continued)*

(iv) Long service payments (continued)

The long service payment liabilities are discounted to determine the present value and reduced by entitlement accrued under the Group's defined contribution plan that is attributable to contributions made by the Group. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising are dealt with as a movement in the exchange fluctuation reserve.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy. However, no prior year adjustment has been made as the effect of this change has no material impact to the accounts of the Company and the Group in the current and prior years.

(n) Revenue recognition

- (i) Rental income from land and buildings is recognised on a straight-line basis over the terms of the lease.
- (ii) Gross receipts from film distribution are recognised upon delivery of the films.
- (iii) Filming facilities services fees comprise studio service fees, film processing and film remastering income. Studio service fees are recognised when the facilities are used. Film processing income is recognised upon delivery of the films. Film remastering income is recognised on acceptance of film quality by the customer.
- (iv) Management fee income is recognised when the services are rendered.
- (v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated items consist primarily of management fee income and interest income less corporate expenses. Segment assets consist primarily of fixed assets, inventories and receivables, and mainly exclude investments in associated companies, fixed deposits with banks, bank and cash balances and taxation recoverable. Segment liabilities comprise operating liabilities and exclude items such as provision for staff long service payments and bank overdrafts. Capital expenditure represents additions to fixed assets.

In respect of geographical segment reporting, revenues are based on the countries in which the customers are located. Total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS

2 TURNOVER AND REVENUES

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries.

Turnover consists of rental income, film distribution income and filming facilities services fees.

Other revenues mainly consist of management fee income and interest income.

The amount of each significant category of revenue recognised during the year is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Rental income from land and buildings	17,833	18,141
Film distribution income	5,796	13,965
Filming facilities services fees	35,877	30,336
	<u>59,506</u>	<u>62,442</u>
Other revenues		
Management fee income	9,213	10,024
Interest income	2,708	5,960
Others	2,436	1,799
	<u>14,357</u>	<u>17,783</u>
Total revenues	<u>73,863</u>	<u>80,225</u>

Primary reporting format – business segments

The Group is principally engaged in investment holding and business operations relating to the media and entertainment industries through the following major business segments:

Property rental	: Leases of properties for rentals
Film distribution	: Distribution of films for theatrical income and royalty income
Filming facilities services	: Provision of studio sites and filming facilities for income
Investment holding	: Investments in associated companies

NOTES TO THE ACCOUNTS

2 TURNOVER AND REVENUES *(continued)*

Primary reporting format – business segments *(continued)*

The Group's inter-segment transactions mainly consists of film processing works, as well as provision of administration and accounting services. Film processing works were provided at similar terms as that contracted with third parties. Administration and accounting services were charged on a cost reimbursement basis.

	Property rental	Film distribution	Filming facilities services	Investment holding	Group total
	2004	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover (Note)	17,833	5,796	35,877	–	59,506
Segment results	13,645	(7,883)	(4,135)	(5,708)	(4,081)
Unallocated items					(7,567)
Operating loss					(11,648)
Finance costs					(1)
Share of profits less losses of associated companies	–	–	–	120,409	120,409
Profit before taxation					108,760
Taxation					(7,690)
Profit attributable to shareholders					101,070
Segment assets	112,652	20,855	108,087	–	241,594
Associated companies	–	–	–	1,069,648	1,069,648
Unallocated assets					185,470
Total assets					1,496,712
Segment liabilities	2,030	11,643	4,608	–	18,281
Unallocated liabilities					8,901
Total liabilities					27,182
Capital expenditure	–	–	5,340	–	5,340
Depreciation charge	4,084	–	15,116	–	19,200
Amortisation of released films	–	11,953	–	–	11,953

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$389,000 attributable to filming facilities services.

NOTES TO THE ACCOUNTS

2 TURNOVER AND REVENUES *(continued)*

Primary reporting format – business segments *(continued)*

	Property rental 2003	Film distribution 2003	Filming facilities services 2003	Investment holding 2003	Group total 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover (Note)	18,141	13,965	30,336	–	62,442
Segment results	12,708	(10,045)	(655)	(6,461)	(4,453)
Unallocated items					(5,433)
Operating loss					(9,886)
Finance costs					(1)
Share of profits less losses of associated companies	–	–	–	176,350	176,350
Profit before taxation					166,463
Taxation					(23,418)
Profit attributable to shareholders					143,045
Segment assets	116,122	21,360	114,897	–	252,379
Associated companies	–	–	–	926,365	926,365
Taxation recoverable					106
Unallocated assets					311,194
Total assets					1,490,044
Segment liabilities	2,262	4,896	3,718	–	10,876
Unallocated liabilities					10,179
Total liabilities					21,055
Capital expenditure	50	–	24,950	–	25,000
Depreciation charge	4,084	–	12,336	–	16,420
Amortisation of released films	–	21,926	–	–	21,926

Note:

Turnover is after eliminating inter-segment transactions amounting to HK\$1,095,000 attributable to filming facilities services.

NOTES TO THE ACCOUNTS

2 TURNOVER AND REVENUES *(continued)*

Secondary reporting format – geographical segments

Although the Group's business segments are managed on a worldwide basis, they operate in four main geographical areas:

Hong Kong : Property rental, film distribution, filming facilities services and investment holding
 South East Asia, : Film distribution
 USA and others

There are no sales between the geographical segments.

	Turnover		Operating profit/(loss) before finance costs		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	55,506	54,839	(7,271)	(5,064)	427,064	563,573	5,340	25,000
South East Asia	3,810	7,109	(4,162)	(4,655)	-	-	-	-
USA	-	230	2	24	-	-	-	-
Others	190	264	(217)	(191)	-	-	-	-
	59,506	62,442	(11,648)	(9,886)	427,064	563,573	5,340	25,000
Associated companies					1,069,648	926,365		
Tax recoverable					-	106		
					1,496,712	1,490,044		

NOTES TO THE ACCOUNTS

3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
<u>Crediting</u>		
Gross rental income less outgoings	<u>17,493</u>	<u>17,768</u>
<u>Charging</u>		
Depreciation charge	20,047	18,891
Less: net amount capitalised to inventories	(847)	(2,471)
	<u>19,200</u>	<u>16,420</u>
Amortisation of released films	11,953	21,926
Exchange loss	–	11
Staff costs (Note 9)	35,100	34,556
Operating leases – land and buildings	400	404
Auditors' remuneration	292	307

4 FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest expense on bank overdrafts	<u>1</u>	<u>1</u>

5 TAXATION

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the year (2003: Nil). Taxation charge in current year represented under provision of Hong Kong profits tax in prior years. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Tax on overseas profits has been calculated, where applicable, at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE ACCOUNTS

5 TAXATION (continued)

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax		
– Under provision in prior years	1,091	–
Associated companies:		
Hong Kong profits tax	1,995	21,020
(Over)/under provisions in prior years	(1,215)	406
Overseas taxation	1,563	1,153
Deferred taxation	4,256	839
	<u>6,599</u>	<u>23,418</u>
	<u>7,690</u>	<u>23,418</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	108,760	166,463
Calculated at a taxation rate of 17.5% (2003: 16%)	19,033	26,633
Effect of different taxation rates in other countries	(14,466)	(11,649)
Income not subject to taxation	(2,522)	(1,248)
Expenses not deductible for taxation purposes	6,005	441
Tax losses not recognised	6,879	9,084
Utilisation of previously unrecognised tax losses	(7,139)	(133)
Tax credit allowance	(605)	–
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	1,409	–
(Over)/under provisions in prior years	(124)	406
Others	(780)	(116)
	<u>7,690</u>	<u>23,418</u>

NOTES TO THE ACCOUNTS

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$103,722,000 (2003: HK\$88,125,000).

7 DIVIDENDS

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Interim dividend paid, HK\$0.05 (2003: HK\$0.05) per ordinary share	19,920	19,920
Final dividend proposed, HK\$0.15 (2003: HK\$0.20) per ordinary share	<u>59,758</u>	<u>79,677</u>
	<u><u>79,678</u></u>	<u><u>99,597</u></u>

At a meeting held on 23rd June 2004, the Directors proposed a final dividend of HK\$0.15 per ordinary share for the year ended 31st March 2004. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March 2005.

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$101,070,000 (2003: HK\$143,045,000) and on 398,390,400 ordinary shares in issue throughout the two years ended 31st March 2004.

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Directors' fee	58	66
Salaries, housing and other allowances	33,685	33,764
Bonuses	201	1,280
Post-employment benefits		
– MPF Scheme (Note 18)	1,055	984
– Long service payments (Note 18)	744	131
	<u>35,743</u>	<u>36,225</u>
Less: net amount capitalised to inventories	<u>(643)</u>	<u>(1,669)</u>
	<u><u>35,100</u></u>	<u><u>34,556</u></u>

NOTES TO THE ACCOUNTS

10 DIRECTORS' EMOLUMENTS

	2004	2003
	HK\$'000	HK\$'000
Fees	58	66
Salaries, housing and other allowances	7,206	7,382
Bonuses	120	1,120
Post-employment benefits – MPF Scheme	24	24
	7,408	8,592

Directors' fees disclosed above include HK\$24,000 (2003: HK\$32,000) paid to independent non-executive directors.

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

<u>Emolument bands</u>	<u>Number of directors</u>	
	2004	2003
HK\$Nil – HK\$1,000,000	6	7
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	2
	8	9

11 FIVE HIGHEST PAID EMPLOYEES

Among the five highest paid employees, four (2003: four) are directors whose emoluments are disclosed in Note 10 above. The emoluments of the other one (2003: one) employee are analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries, housing and other allowances	804	901
Bonuses	–	179
Post-employment benefits – MPF Scheme	12	6
	816	1,086

The emoluments fell within the following band:

<u>Emolument bands</u>	<u>Number of employees</u>	
	2004	2003
HK\$Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	–	1
	1	1

NOTES TO THE ACCOUNTS

12 FIXED ASSETS

Group and Company

	Hong Kong medium term lease land and buildings (Note)	Motor vehicles, furniture, fittings and equipment	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 1st April 2003	173,592	60,364	81,231	315,187
Additions	–	274	5,066	5,340
At 31st March 2004	<u>173,592</u>	<u>60,638</u>	<u>86,297</u>	<u>320,527</u>
Accumulated depreciation				
At 1st April 2003	37,221	44,950	23,354	105,525
Charge for the year	3,152	3,783	13,112	20,047
At 31st March 2004	<u>40,373</u>	<u>48,733</u>	<u>36,466</u>	<u>125,572</u>
Net book value				
At 31st March 2004	<u>133,219</u>	<u>11,905</u>	<u>49,831</u>	<u>194,955</u>
At 31st March 2003	<u>136,371</u>	<u>15,414</u>	<u>57,877</u>	<u>209,662</u>

Note:

Included in land and buildings of the Company and the Group is a property carried at cost less accumulated depreciation amounting to HK\$128,808,000 (2003: HK\$131,802,000). The property is held under a medium term lease granted by the District Commissioner, New Territories, of the Government of Hong Kong Special Administrative Region under special conditions (“the Grant”). Under the conditions of the Grant, the use of the property is restricted to specific purposes and there are also restrictions on the right to assign, underlet or dispose of the property whereby prior approval should be obtained from the District Commissioner. The property is classified as land and buildings of the Company and the Group and stated at cost less accumulated depreciation at the balance sheet date.

NOTES TO THE ACCOUNTS

13 SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,900	4,900
Less: provisions	(4,890)	(4,890)
	<u>10</u>	<u>10</u>
Amounts due from subsidiaries (Note a)	41,596	41,290
Less: provisions	(30,700)	(21,900)
	<u>10,896</u>	<u>19,390</u>
Amounts due to subsidiaries (Note a)	<u>(448)</u>	<u>(10,085)</u>
	<u><u>10,458</u></u>	<u><u>9,315</u></u>

- (a) Except for an amount due from a subsidiary of HK\$25,028,000 (2003: HK\$22,928,000) which carries interest at Hong Kong Dollar prime lending rate per annum, the amounts due from/to subsidiaries are unsecured and interest free, and have no fixed repayment terms.

NOTES TO THE ACCOUNTS

13 SUBSIDIARIES (continued)

(b) Details of the subsidiaries at 31st March 2004 are as follows:

Name	Place of incorporation/ operation	Principal activities	Number of ordinary shares issued	Par value	Percentage of issued ordinary share capital held	
					Direct	Indirect
Film Power Company Limited	Hong Kong	Film production and distribution	10	HK\$1	–	60%
Super Film Production Company Limited	Hong Kong	Film production and distribution	2	HK\$1	–	100%
Multi Entertainment Limited	Hong Kong	Investment holding	100	HK\$1	–	100%
Shaw Productions Limited	Hong Kong	Investment holding	2	HK\$1	100%	–
Special Classic Limited	Hong Kong	Sales of karaoke discs	2	HK\$1	100%	–
Cosmopolitan Film Productions Co. Limited	Hong Kong	Dormant	1,000	HK\$10	100%	–
United Production Limited	Hong Kong	Dormant	2	HK\$1	100%	–
Cosmos Gain International Ltd	Hong Kong	Investment holding	6	HK\$1	–	100%

14 ASSOCIATED COMPANIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	855,723	851,039
Loan to an associated company	213,925	75,326
	1,069,648	926,365

NOTES TO THE ACCOUNTS

14 ASSOCIATED COMPANIES (continued)

	Company	
	2004	2003
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	3	3
Listed shares	1,053,250	1,053,250
	1,053,253	1,053,253
Loan to an associated company	213,925	75,326
	1,267,178	1,128,579
Market value of listed shares	4,191,102	2,721,938

Profit for the year retained by associated companies amounts to HK\$5,616,000 (2003: HK\$44,738,000).

- (a) The loan to an associated company is unsecured and interest free, and has no fixed repayment terms.
- (b) Dividends from an associated company received and receivable by the Company during the year amounted to HK\$108,194,000 (2003: HK\$108,194,000).
- (c) Details of the associated companies at 31st March 2004 are as follows:

Name	Place of incorporation/ operation	Principal activities	Percentage of issued ordinary share capital held	
			Direct	Indirect
Television Broadcasts Limited	Hong Kong	Television broadcasting	26%	–
Goldway Holdings Limited	British Virgin Islands/ Hong Kong	Investment holding	35%	–
Hong Kong Movie City Company Limited	Hong Kong	Development of film studio and ancillary facilities	–	35%
China Digital Movie City Company Limited	Hong Kong	Dormant	–	35%
Hong Kong Digital Movie City Company Limited	Hong Kong	Dormant	–	35%

NOTES TO THE ACCOUNTS

14 ASSOCIATED COMPANIES *(continued)*

The following are extracts from the published accounts of Television Broadcasts Limited.

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2003

	2003	2002
	HK\$'000	HK\$'000
Turnover	3,311,162	3,161,862
Cost of sales	(1,692,513)	(1,543,362)
Gross profit	1,618,649	1,618,500
Other revenues	37,922	41,083
Selling and distribution costs	(442,818)	(435,518)
General and administrative expenses	(574,207)	(489,409)
Other operating (expenses)/income	(106,382)	893
Gain on deemed disposal of subsidiaries	27,726	–
Gain on disposal of a subsidiary	5,213	–
Operating profit	566,103	735,549
Finance costs	(17,202)	(21,945)
Share of profits less losses of Jointly controlled entities Associated companies	(47,080) (16,734)	(28,103) (1,250)
Profit before taxation	485,087	684,251
Taxation	(25,378)	(90,064)
Profit after taxation	459,709	594,187
Minority interests	(18,711)	(4,269)
Profit attributable to shareholders	440,998	589,918
Dividends	350,400	416,100
Earnings per share	HK\$1.01	HK\$1.35

NOTES TO THE ACCOUNTS

14 ASSOCIATED COMPANIES *(continued)*

EXTRACTS FROM THE AUDITED ACCOUNTS OF TELEVISION BROADCASTS LIMITED *(continued)*

CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER 2003

	2003	2002
	HK\$'000	HK\$'000
Intangible assets	62,739	–
Fixed assets	2,365,231	2,166,651
Jointly controlled entities	22,714	80,879
Associated companies	238,234	25,685
Investment in securities	3,658	4,698
Loans to investee companies	13,200	10,887
Deferred tax assets	23,551	–
Current assets		
Programmes and film rights	605,459	658,734
Stocks	15,242	21,322
Trade and other receivables, prepayments and deposits	991,809	965,342
Tax recoverable	13,512	–
Pledged bank deposits	228	1,618
Cash and bank balances	361,783	362,150
	<u>1,988,033</u>	<u>2,009,166</u>
Current liabilities		
Trade and other payables and accruals	511,527	575,808
Provisions	33,073	–
Short term loans	549,368	232,786
Bank overdrafts	6,532	45,970
Current portion of long term liabilities	5,276	21,499
Taxation	5,805	28,410
	<u>1,111,581</u>	<u>904,473</u>
Net current assets	<u>876,452</u>	<u>1,104,693</u>
Total assets less current liabilities	<u>3,605,779</u>	<u>3,393,493</u>
Financed by:		
Share capital	21,900	21,900
Reserves	3,273,647	3,252,332
Shareholders' funds	<u>3,295,547</u>	<u>3,274,232</u>
Minority interests	83,785	424
Provisions	62,052	–
Long term liabilities	57,265	55,589
Pension obligations	11,372	7,642
Deferred tax liabilities	95,758	55,606
	<u>3,605,779</u>	<u>3,393,493</u>

NOTES TO THE ACCOUNTS

15 INVENTORIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Released films	2,979	4,305	–	–
Unreleased films	14,842	15,082	–	–
Raw materials and processing works	6,969	4,912	6,969	4,912
	24,790	24,299	6,969	4,912

16 ACCOUNTS RECEIVABLE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables (Note)	14,949	12,042	13,162	11,237
Prepayments, deposits and other receivables	9,156	9,594	8,394	8,919
	24,105	21,636	21,556	20,156

Note:

The Group has a defined credit policy. The general credit term ranges from 30 to 90 days.

At 31st March 2004, the ageing analysis of the trade receivables are as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current	9,184	6,575	8,942	6,516
1 – 3 months	4,900	4,656	3,922	4,617
Over 3 months	865	811	298	104
	14,949	12,042	13,162	11,237

NOTES TO THE ACCOUNTS

17 CREDITORS AND ACCRUALS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note)	2,063	566	994	167
Other payables and accruals	20,856	15,036	11,076	10,656
	22,919	15,602	12,070	10,823

Note:

At 31st March 2004, the ageing analysis of the trade payables are as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	1,583	224	994	167
1 – 3 months	110	70	–	–
Over 3 months	370	272	–	–
	2,063	566	994	167

18 PROVISION FOR STAFF LONG SERVICE PAYMENTS

Group and Company

The Group's provision for long service payments is provided based on the actuarial assumptions with the adoption of the projected unit credit method.

The amounts recognised in the balance sheet are determined as follows:

	2004	2003
	HK\$'000	HK\$'000
Present value of unfunded obligations	4,984	3,264
Fair value of MPF Scheme	(2,574)	(1,521)
Provision for staff long service payments	2,410	1,743

NOTES TO THE ACCOUNTS

18 PROVISION FOR STAFF LONG SERVICE PAYMENTS *(continued)*

Group and Company *(continued)*

The amounts recognised in the consolidated profit and loss account are as follows:

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Current service cost	1,645	698
Unrecognised actuarial loss	505	471
Return on MPF Scheme assets	(351)	(54)
	<u>1,799</u>	<u>1,115</u>
Total, included in staff costs (Note 9)	<u>1,799</u>	<u>1,115</u>

Total expenses recognised in the profit and loss account are analysed as follows:

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Cost of sales	260	176
Selling and distribution expenses	35	27
General and administrative expenses	1,096	421
Other operating expenses	408	491
	<u>1,799</u>	<u>1,115</u>

Movements in the provision for long service payments recognised in balance sheet are as follows:

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
At beginning of the year	1,743	1,905
Total expenses		
– MPF Scheme (Note 9)	1,055	984
– Long service payments (Note 9)	744	131
Total expenses (as shown above)	<u>1,799</u>	<u>1,115</u>
Contributions and benefits paid	<u>(1,132)</u>	<u>(1,277)</u>
At end of the year	<u>2,410</u>	<u>1,743</u>

NOTES TO THE ACCOUNTS

18 PROVISION FOR STAFF LONG SERVICE PAYMENTS *(continued)*

Group and Company *(continued)*

The principal actuarial assumptions used are as follows:

	<u>2004</u>	<u>2003</u>
	%	%
Discount rate	3.78	4.39
Expected rate of future salary increment	1.00	–

19 SHARE CAPITAL

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.25 each	150,000	150,000
Issued and fully paid:		
398,390,400 ordinary shares of HK\$0.25 each	99,598	99,598

NOTES TO THE ACCOUNTS

20 RESERVES

(a) Group

	Legal reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2002	1,942	32,982	(2,456)	1,272,051	1,304,519
Share of reserve movements of associated companies	–	–	2,235	(730)	1,505
Profit for the year	–	–	–	143,045	143,045
2002 Final dividend paid	–	–	–	(59,758)	(59,758)
2003 Interim dividend paid (Note 7)	–	–	–	(19,920)	(19,920)
	<u>1,942</u>	<u>32,982</u>	<u>(221)</u>	<u>1,334,688</u>	<u>1,369,391</u>
At 31st March 2003					
Representing:					
Retained profits				1,255,011	
2003 Final dividend proposed (Note 7)				79,677	
				<u>1,334,688</u>	
At 31st March 2003					
Company and subsidiaries	–	32,678	–	703,407	736,085
Associated companies	1,942	304	(221)	631,281	633,306
	<u>1,942</u>	<u>32,982</u>	<u>(221)</u>	<u>1,334,688</u>	<u>1,369,391</u>
At 31st March 2003					

NOTES TO THE ACCOUNTS

20 RESERVES (continued)

(a) Group (continued)

	Legal reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2003	1,942	32,982	(221)	1,334,688	1,369,391
Share of reserve movements of associated companies	94	(80)	(6,397)	5,451	(932)
Profit for the year	-	-	-	101,070	101,070
2003 Final dividend paid (Note 7)	-	-	-	(79,677)	(79,677)
2004 Interim dividend paid (Note 7)	-	-	-	(19,920)	(19,920)
	<u>2,036</u>	<u>32,902</u>	<u>(6,618)</u>	<u>1,341,612</u>	<u>1,369,932</u>
At 31st March 2004					
Representing:					
Retained profits				1,281,854	
2004 Final dividend proposed (Note 7)				59,758	
				<u>1,341,612</u>	
At 31st March 2004					
Company and subsidiaries	-	32,678	-	699,264	731,942
Associated companies	2,036	224	(6,618)	642,348	637,990
	<u>2,036</u>	<u>32,902</u>	<u>(6,618)</u>	<u>1,341,612</u>	<u>1,369,932</u>
At 31st March 2004					

Capital reserve includes a transfer from retained profits, which represents the excess of the Group's share of net assets at fair value of an associated company over the Group's share of the associated company's distributable reserves arising from the deemed disposal of interest in the associated company.

In accordance with local laws of a subsidiary of an associated company of the Group, that company is required to set aside 10% of annual net income less any accumulated deficit as legal reserve to the extent that the legal reserve amounts to total contributed share capital. The application of the legal reserve is restricted to covering operating losses and conversion into share capital of that subsidiary.

NOTES TO THE ACCOUNTS

20 RESERVES (continued)

(b) Company

	General reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April 2002	557,394	998,137	1,555,531
Profit for the year	–	88,125	88,125
2002 Final dividend paid	–	(59,758)	(59,758)
2003 Interim dividend paid (Note 7)	–	(19,920)	(19,920)
	<u>557,394</u>	<u>1,006,584</u>	<u>1,563,978</u>
At 31st March 2003			
Representing:			
Retained profits		926,907	
2003 Final dividend proposed (Note 7)		79,677	
		<u>1,006,584</u>	
At 31st March 2003			
At 1st April 2003	557,394	1,006,584	1,563,978
Profit for the year	–	103,722	103,722
2003 Final dividend paid (Note 7)	–	(79,677)	(79,677)
2004 Interim dividend paid (Note 7)	–	(19,920)	(19,920)
	<u>557,394</u>	<u>1,010,709</u>	<u>1,568,103</u>
At 31st March 2004			
Representing:			
Retained profits		950,951	
2004 Final dividend proposed (Note 7)		59,758	
		<u>1,010,709</u>	
At 31st March 2004			

Distributable reserve of the Company at 31st March 2004, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,568,103,000 (2003: HK\$1,563,978,000).

NOTES TO THE ACCOUNTS

21 DEFERRED TAXATION

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable. As at 31st March 2004 and 2003, the Group has unrecognised deferred tax benefits in respect of tax losses amounting to approximately HK\$41,190,000 and HK\$38,480,000 respectively, to carry forward against future taxable profits with no expiry date. Deferred tax assets for these tax losses are not recognised as it is not probable that related tax benefits will be utilised in the foreseeable future.

22 CAPITAL COMMITMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for				
– in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities	95,560	37,318	95,560	37,318
Contracted but not provided for				
– in respect of property, plant and equipment	1,068	576	1,068	576
– in respect of the Group's share of contribution to an associated company for its development of film studio and ancillary facilities	75,515	219,856	75,515	219,856
	76,583	220,432	76,583	220,432
	172,143	257,750	172,143	257,750

NOTES TO THE ACCOUNTS

23 LEASE COMMITMENTS

- (a) At 31st March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	84	84	84	84

- (b) At 31st March 2004, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	17,732	17,732	17,732	17,732
Later than one year and not later than five years	4,432	22,164	4,432	22,164
	22,164	39,896	22,164	39,896

24 RELATED PARTY TRANSACTIONS

The Group entered into the following significant transactions in the normal course of business during the year with related parties:

- (i) The Group received rental income in respect of land and buildings amounting to HK\$17,732,000 (2003: HK\$17,732,000) from an associated company. The rental income was determined by contract between both parties.
- (ii) The Group received filming facilities services fees amounted to HK\$4,454,000 from an associated company for the year ended 31st March 2003. The fees for these facilities were determined by contract between both parties and the contract was not renewed upon its expiry date on 31st January 2003.
- (iii) The Group provided labour and administrative services to certain related companies for management fees totalling HK\$8,459,000 (2003: HK\$8,895,000). The fees for these services were determined by contract agreed between the parties. These related companies are held by a substantial shareholder of the Company.

NOTES TO THE ACCOUNTS

25 CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before taxation to net cash inflow/(outflow) generated from operations:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	108,760	166,463
Share of profits less losses of associated companies	(120,409)	(176,350)
Interest income	(2,708)	(5,960)
Interest expense	1	1
Depreciation charge	20,047	18,891
Gain on disposal of fixed assets	–	(5)
Operating profit before working capital changes	5,691	3,040
(Increase)/decrease in inventories	(491)	5,435
Increase in accounts receivable, prepayments, deposits and other receivables	(3,172)	(13,062)
Increase/(decrease) in creditors and accruals	7,993	(3,582)
Decrease in advanced rental received from an associated company	(29)	(468)
Increase/(decrease) in provision for staff long service payments	667	(162)
Net cash inflow/(outflow) generated from operations	10,659	(8,799)

- (b) Reconciliation of interest income and expense to interest received and paid:

	2004	2003
	HK\$'000	HK\$'000
Interest income	2,708	5,960
Increase in interest receivable	81	78
Interest received	2,789	6,038
Interest expense	(1)	(1)
Change in interest payable	–	–
Interest paid	(1)	(1)

26 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 23rd June 2004.