

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 Summary of significant accounting policies (Continued)

1.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.23 Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

2 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, assets and liabilities recognition and net investments in foreign operations, are in a currency that is not the subsidiaries' functional currency.

The Group has certain investments in foreign operations, the net assets of which are exposed to foreign currency risk.

The Group manages this risk by initially seeking contracts effectively denominated in Hong Kong dollars where possible and economically favorable to do so. The Group will continue to monitor its foreign currency risk exposure and market conditions to determine if any hedging is required. The Group does not conduct any foreign currency speculative activities.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. Its credit risk is mitigated by its combination of cash and credit sales. For credit sales, the Group has no significant concentration of credit risk due to its diverse customer base. Credit risk is managed by formulating a credit policy for credit checks, credit reviews and monitoring procedures that include a formal collection process.

(c) Cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in Note 1.6. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivables are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivables are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivables and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

(d) Impairment of non-current asset

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the asset's residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Critical accounting estimates and judgements (Continued)

(d) Impairment of non-current asset (Continued)

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecasts of future performance and long-term growth rates and the selection of discount rates. If these forecasts and assumptions prove to be incorrect or circumstances change, write down of the carrying value of the non-current assets may be required.

Based on the most recent assessments of recoverable amount, management is of the opinion that as at 31 December 2005, the non-current assets are recoverable at the amounts at which they are stated in the financial statements.

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded or anticipated, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made.

4 Turnover, revenue and segment information

The Group is principally engaged in terrestrial television broadcasting with programme production, programme licensing and distribution, overseas satellite pay TV operations, channel operations and other related activities.

Turnover comprises advertising income net of agency deductions, licensing income, subscription income, as well as income from video tape and disc rentals, sale of animation productions, sale of magazines, programmes/commercial production income, merchandising income, management fee income, facility rental income and other service fee income.

Other revenues comprise mainly interest income and other rental income.

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

| | 2005 | 2004 |
|--|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Advertising income, net of agency deductions | 2,681,524 | 2,597,471 |
| Licensing income | 790,725 | 767,060 |
| Subscription income | 413,947 | 370,940 |
| Others (note) | 336,990 | 116,096 |
| | 4,223,186 | 3,851,567 |
| Less: Withholding tax | (46,596) | (34,631) |
| | 4,176,590 | 3,816,936 |
| Other revenues (note) | | |
| Interest income | 25,151 | 20,294 |
| Others | 13,811 | 37,926 |
| | 38,962 | 58,220 |
| | 4,215,552 | 3,875,156 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Note:

In prior years, the Group reported the revenues generated from the production of tailor-made sponsorship programmes on a net basis, and such net revenue was set off against the cost of production for these programmes. In prior years, income generated from commercial production, merchandising, talent management, facility rental and other services (“Miscellaneous Income”) were included as other revenues.

In 2005, the Group is of the opinion that it is more appropriate to reclassify the above revenues and income. As a result, revenues from production of tailor-made sponsorship programmes and the Miscellaneous Income are now classified under Turnover. These classification changes were made from 1 January 2005 and have no effect on the Group’s profit.

If the revenues for the year ended 31 December 2004 were reclassified on the same basis as above, the Group’s turnover would increase by HK\$137,884,000, cost of sales would increase by HK\$115,652,000 and other revenue would decrease by HK\$22,232,000, with no change to the Group’s profit. Therefore, the Group’s turnover, cost of sales and other revenues for the year ended 31 December 2004 would have been HK\$3,954,820,000, HK\$1,957,101,000 and HK\$35,988,000 respectively.

Primary reporting format - business segments

The Group is organised on a worldwide basis into five main business segments:

Terrestrial television broadcasting - free to air broadcasting of television programmes and commercials and production of programmes

Programme licensing and distribution - provision of television programmes to homevideo markets and overseas broadcasters

Overseas satellite pay TV operations - provision of satellite pay television services to subscribers in USA, Europe and Australia

Channel operations - compilation and distribution of television channels in Mainland China, Taiwan, Hong Kong and other countries

Other activities - animation production, merchandising services, website portal, magazine publication, movie investment and other related services

The Group’s inter-segment transactions mainly consist of licensing of programmes and film rights and provision of services. Licensing of programmes and film rights were entered into at similar terms as that contracted with third parties. The services provided were charged on a cost plus basis or at similar terms as that contracted with third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Primary reporting format - business segments (Continued)

An analysis of the Group's turnover and results for the year by business segments is as follows:

| | 2005 | | | | | | Total |
|---|-------------------------------------|--------------------------------------|--------------------------------------|--------------------|------------------|------------------|------------------|
| | Terrestrial television broadcasting | Programme licensing and distribution | Overseas satellite pay TV operations | Channel operations | Other activities | Elimination | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Turnover (note) | | | | | | | |
| External sales | 2,230,312 | 594,065 | 247,177 | 984,023 | 121,013 | - | 4,176,590 |
| Inter-segment sales | 5,877 | 99,056 | - | 14,291 | 6,712 | (125,936) | - |
| | 2,236,189 | 693,121 | 247,177 | 998,314 | 127,725 | (125,936) | 4,176,590 |
| Segment results (note) | 859,160 | 391,028 | 28,789 | 194,429 | (15,501) | 1,101 | 1,459,006 |
| Gain on disposal of financial assets at fair value through profit or loss | | | | | | | 148,778 |
| Finance costs | | | | | | | (956) |
| Share of losses of | | | | | | | |
| Jointly controlled entities | - | - | - | (30) | - | | (30) |
| Associates | - | - | - | (187,197) | - | | (187,197) |
| Profit before income tax | | | | | | | 1,419,601 |
| Income tax expense | | | | | | | (232,354) |
| Profit for the year | | | | | | | 1,187,247 |

Note: There were no new activities at their initial stage of operations (i.e. not more than five years since commencement of commercial operations) for the year ended 31 December 2005.

Other segment terms included in the income statement are as follows:

| | | | | | | |
|--------------------------------|---------|-------|--------|--------|-------|---------|
| Depreciation | 186,203 | 6,994 | 12,318 | 52,950 | 1,911 | 260,376 |
| Amortisation of leasehold land | 4,568 | - | - | - | - | 4,568 |
| Impairment of goodwill | - | - | - | 5,894 | - | 5,894 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Primary reporting format - business segments (Continued)

| | 2004 | | | | | | Total |
|-----------------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------|------------------|------------------|------------------|
| | Terrestrial television broadcasting | Programme licensing and distribution | Overseas satellite pay TV operations | Channel operations | Other activities | Elimination | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Turnover (note (a)) | | | | | | | |
| External sales (note (b)) | 2,005,790 | 581,817 | 213,834 | 907,560 | 107,935 | - | 3,816,936 |
| Inter-segment sales | 1,142 | 97,426 | 183 | 14,912 | 8,295 | (121,958) | - |
| | <u>2,006,932</u> | <u>679,243</u> | <u>214,017</u> | <u>922,472</u> | <u>116,230</u> | <u>(121,958)</u> | <u>3,816,936</u> |
| Segment results (note (a)) | 519,227 | 375,081 | (7,010) | 171,403 | 21,015 | 1,675 | 1,081,391 |
| Finance costs | | | | | | | (7,006) |
| Share of losses of | | | | | | | |
| Jointly controlled entities | - | - | - | (6) | (6,093) | | (6,099) |
| Associates | - | - | - | (166,402) | - | | (166,402) |
| Profit before income tax | | | | | | | 901,884 |
| Income tax expense | | | | | | | (152,312) |
| Profit for the year | | | | | | | <u>749,572</u> |

Notes:

- (a) The above segments included activities at their initial stage of operations (i.e. not more than five years since commencement of commercial operations) and an analysis of their respective turnover and results is as follows:

| | | | | | | |
|-----------------|---|---|---------|---|--------|---------|
| Turnover | - | - | 142,350 | - | 26,142 | 168,492 |
| Segment results | - | - | 24,547 | - | 10,132 | 34,679 |

- (b) In respect of the terrestrial television broadcasting segment, revenues generated from the production of tailor-made sponsorship programmes were reported on a net basis, and such net revenue was set off against the cost of production for these programmes in prior years. If these revenues were reclassified to turnover, the turnover for external sales under this segment would increase by HK\$137,884,000, with no overall effect on the segment results. On this basis, the turnover for external sales for 2004 would have been HK\$2,143,674,000.

Other segment terms included in the income statement are as follows:

| | | | | | | |
|--------------------------------|---------|-------|-------|--------|-------|---------|
| Depreciation | 191,786 | 6,712 | 9,647 | 53,133 | 3,930 | 265,208 |
| Amortisation of leasehold land | 4,567 | - | - | - | - | 4,567 |
| Amortisation of goodwill | - | - | 5,598 | 1,799 | - | 7,397 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Primary reporting format - business segments (Continued)

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year ended 31 December 2005 are as follows:

| | Terrestrial television broadcasting | Programme licensing and distribution | Overseas satellite pay TV operations | Channel operations | Other activities | Total |
|--|---|--|--|-----------------------|---------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 3,502,242 | 221,896 | 117,145 | 1,040,418 | 125,319 | 5,007,020 |
| Interest in associates | 144,069 | - | - | 101,447 | - | 245,516 |
| Available-for-sale financial assets | - | 3 | - | - | - | 3 |
| Loans to investee companies | - | 6,676 | - | - | - | 6,676 |
| Unallocated assets | | | | | | 63,049 |
| Total assets | | | | | | <u>5,322,264</u> |
| Segment liabilities | 258,514 | 94,996 | 58,259 | 174,948 | 19,184 | 605,901 |
| Payable for financial assets at fair value through profit or loss | - | - | - | 56,876 | - | 56,876 |
| Unallocated liabilities | | | | | | 254,420 |
| Total liabilities | | | | | | <u>917,197</u> |
| Capital expenditure | 65,734 | 4,123 | 2,520 | 155,976 | 687 | 229,040 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Primary reporting format - business segments (Continued)

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year ended 31 December 2004 are as follows:

| | Terrestrial television broadcasting | Programme licensing and distribution | Overseas satellite pay TV operations | Channel operations | Other activities | Total |
|---|---|--|--|-----------------------|---------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 3,183,901 | 195,608 | 141,685 | 621,002 | 147,191 | 4,289,387 |
| Interest in associates | 133,397 | - | - | 146,149 | - | 279,546 |
| Interest in jointly controlled entities | - | - | - | 3,814 | 14,908 | 18,722 |
| Investment securities | - | 3 | - | 2,164 | 1,538 | 3,705 |
| Loans to investee companies | - | 14,263 | - | - | - | 14,263 |
| Other investments | - | - | - | 189,432 | - | 189,432 |
| Unallocated assets | | | | | | 37,855 |
| Total assets | | | | | | 4,832,910 |
| Segment liabilities | 258,362 | 88,972 | 60,744 | 141,655 | 20,591 | 570,324 |
| Payable for other investments | - | - | - | 189,432 | - | 189,432 |
| Unallocated liabilities | | | | | | 285,958 |
| Total liabilities | | | | | | 1,045,714 |
| Capital expenditure | 111,512 | 5,953 | 1,445 | 20,164 | 4,073 | 143,147 |

Segment assets consist primarily of property, plant and equipment, leasehold land, intangible assets, stocks, receivables and operating cash, and mainly exclude tax recoverable, deferred income tax and investments.

Segment liabilities comprise operating liabilities and exclude items such as income tax and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 5) and intangible assets (Note 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Secondary reporting format - geographical segments

Although the Group's five business segments are managed on a worldwide basis, sales are generated in eight main geographical areas:

Hong Kong - terrestrial television broadcasting with programme production, distribution of television channels, website portal, magazine publication and movie investment.

Taiwan - cable television channel services

USA and Canada - licensing and distribution of television programmes and satellite pay TV operations

Australia - licensing and distribution of television programmes and satellite pay TV operations

Europe - licensing and distribution of television programmes and satellite pay TV operations

Mainland China - licensing and distribution of television programmes and channels and satellite TV channel services

Malaysia and Singapore - licensing and distribution of television programmes

Other countries - principally licensing and distribution of television programmes

An analysis of the Group's turnover and segment results for the year by geographical segments is as follows:

| | Turnover | | Segment results | |
|---|------------------|------------------|------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Geographical segments: | | | | |
| Hong Kong | 2,560,672 | 2,281,105 | 940,891 | 587,331 |
| Taiwan | 743,834 | 703,831 | 133,586 | 155,050 |
| USA and Canada | 209,149 | 208,667 | 106,197 | 106,873 |
| Australia | 67,784 | 60,510 | (6,023) | (11,933) |
| Europe | 97,080 | 78,953 | 17,275 | (19,119) |
| Mainland China | 117,225 | 104,922 | 65,311 | 56,571 |
| Malaysia and Singapore | 337,726 | 337,056 | 182,978 | 184,095 |
| Other countries | 43,120 | 41,892 | 18,791 | 22,523 |
| | 4,176,590 | 3,816,936 | 1,459,006 | 1,081,391 |
| Gain on disposal of financial assets at fair value through profit or loss | | | 148,778 | |
| | | | 1,607,784 | |

Sales are based on the location in which the customers are located. There are no sales between the geographical segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Turnover, revenue and segment information (Continued)

Secondary reporting format - geographical segments (Continued)

| | Total assets | | Capital expenditure | |
|---|------------------|-----------|---------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 3,994,853 | 3,388,477 | 69,453 | 115,523 |
| Taiwan | 680,433 | 540,143 | 155,901 | 20,006 |
| USA and Canada | 101,990 | 123,375 | 2,610 | 4,975 |
| Australia | 11,614 | 16,113 | 325 | 473 |
| Europe | 72,966 | 88,195 | 735 | 913 |
| Mainland China | 26,836 | 21,806 | - | 1,229 |
| Malaysia and Singapore | 93,321 | 78,750 | - | - |
| Other countries | 25,007 | 32,528 | 16 | 28 |
| | 5,007,020 | 4,289,387 | 229,040 | 143,147 |
| Interest in associates | 245,516 | 279,546 | | |
| Interest in jointly controlled entities | - | 18,722 | | |
| Available-for-sale financial assets | 3 | - | | |
| Investment securities | - | 3,705 | | |
| Loans to investee companies | 6,676 | 14,263 | | |
| Other investments | - | 189,432 | | |
| Unallocated assets | 63,049 | 37,855 | | |
| | 5,322,264 | 4,832,910 | | |

Total assets and capital expenditure are allocated based on where the assets are located.