NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investment in securities as explained in the accounting policies set out below.

(c) Interest in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same manner as for investments in non-trading securities (see note 1(j)(ii)).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the same manner as for investments in non-trading securities (see note 1(j)(ii)).

1. Significant accounting policies (Continued)

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case it is stated at fair value with changes in fair value recognised in the same manner as for investments in non-trading securities (see note 1(j)(ii)). The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 20 years. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

1. Significant accounting policies (Continued)

(e) Goodwill (Continued)

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) Investment properties

Investment properties are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers. Surpluses arising on revaluation are credited on a portfolio basis to the consolidated income statement to the extent of any deficit arising on revaluation previously charged to the consolidated income statement and are thereafter taken to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter are charged to the consolidated income statement.

No depreciation is provided for investment properties as all investment properties are either freehold or held under leases with unexpired terms of more than 20 years and the valuation takes into account the state of each property at the date of valuation.

(ii) Land and buildings

Land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)).

Leasehold land is amortised by equal instalments over the remaining periods of the relevant leases.

Buildings are depreciated on a straight-line basis over the shorter of 50 years and the unexpired terms of the leases.

(iii) Land use rights

Land use rights are included under land and buildings and are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Amortisation is calculated to write off the cost over the period of entitlement.

1. Significant accounting policies (Continued)

(f) Fixed assets (Continued)

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(i)). Depreciation is calculated to write off the cost of other fixed assets on a straight-line basis at the following rates:

Furniture and fixtures	10% – 20% per annum
Computer hardware and software	20% per annum
Motor vehicles	25% per annum

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is also transferred to the consolidated income statement for the year. For all other fixed assets upon disposal, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(g) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts as set out in note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

1. Significant accounting policies (Continued)

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than investment properties carried at revalued amounts);

– investment in subsidiaries and associates (except those accounted for at fair value under notes 1(c) and (d)); and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1. Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(j) Investment in securities

The Group's accounting policies for investment in securities other than investments in subsidiaries and associates are as follows:

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.

(ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.

(iii) Transfers from the investment revaluation reserve to the consolidated income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investment in securities are accounted for in the consolidated income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(k) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods

Revenue arising from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

1. Significant accounting policies (Continued)

(k) Revenue recognition (Continued)

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

Dividend income from listed securities is recognised when the share price of the securities goes ex-dividend. Dividend income from unlisted investments is recognised in the accounting period in which it is declared or proposed and approved by shareholders of the investee company.

(iv) Profit on sale of listed securities

Profit on sale of listed securities is recognised on the trade date basis.

(v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. Significant accounting policies (Continued)

(m) Income tax

(i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

1. Significant accounting policies (Continued)

(m) Income tax (Continued)

(iii) (Continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

(iii) Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1. Significant accounting policies (Continued)

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(s) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operation.

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

2. Turnover and segment reporting

The principal activities of the Group during the year were the operation of department stores and property investment.

Group turnover for the year comprises the invoiced value of goods sold to customers less returns and income from property investment.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system.

Business segments

The Group comprises the following main business segments:

Department stores: The operating of department stores to offer a wide range of consumer products.

Property investment: The leasing of office premises to generate rental income and to gain from the appreciation in the properties' values in the long term.

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 restated
	$'000	$'000	$'000 (note (a))	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,364,843	1,445,500	258,229	280,809	–	–	–	–	1,623,072	1,726,309
Inter-segment revenue	–	3	67,119	67,302	(67,119)	(67,305)	–	–	–	–
Other revenue from external customers	–	–	–	–	–	–	2,054	3,092	2,054	3,092
Total	1,364,843	1,445,503	325,348	348,111	(67,119)	(67,305)	2,054	3,092	1,625,126	1,729,401
Segment result	(25,659)	(52,733)	221,382	243,105	–	–	–	–	195,723	190,372
Gain on disposal of investment properties in Australia (note (b))	–	–	14,624	48,658	–	–	–	–	14,624	48,658
	(25,659)	(52,733)	236,006	291,763	–	–	–	–	210,347	239,030
Interest income									30,920	21,825
Unallocated operating income net of expenses									78,845	30,889
Profit from operations									320,112	291,744
Finance costs									(55,817)	(52,840)
									264,295	238,904
Share of profits less losses of associates (note (c))									119,940	146,069
Profit from ordinary activities before taxation									384,235	384,973
Taxation									(87,328)	(145,805)
Profit from ordinary activities after taxation									296,907	239,168
Minority interests									(530)	(684)
Profit attributable to shareholders									296,377	238,484

2. Turnover and segment reporting (Continued)

Business segments (Continued)

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Depreciation and amortisation for the year	(30,563)	(32,194)	(28,644)	(28,131)	–	–	(390)	(980)	(59,597)	(61,305)
Impairment of fixed assets (note 13(h))	(3,484)	–	–	–	–	–	(3)	–	(3,487)	–
Segment assets	149,935	182,012	3,988,218	3,994,794	(9,998)	(13,768)	–	–	4,128,155	4,163,038
Interest in associates									584,140	525,285
Unallocated assets									1,228,533	894,843
Total assets									5,940,828	5,583,166
Segment liabilities	213,301	221,860	24,616	31,036	(9,998)	(13,768)	–	–	227,919	239,128
Unallocated liabilities									1,116,158	1,029,782
Total liabilities									1,344,077	1,268,910
Capital expenditure incurred during the year	10,709	4,785	16,401	9,769	–	–	15	343	27,125	14,897

Notes:

(a) Operating profit contributed by property investment includes net rental income receivable of $66,064,000 (2002: $65,919,000) from the department store operation.

(b) Gain on disposal of investment properties amounting to $14,624,000 (2002: $48,658,000) represents the disposal of investment properties in Australia. The amount includes transfers from the investment property revaluation reserve and the exchange reserve totalling $14,789,000 (2002: $45,513,000) (note 28(a)).

(c) Share of profits less losses of associates includes a loss of $562,000 incurred (2002: a profit of $39,117,000 contributed) by an associate in respect of the disposal of investment properties (note 16(c)).

2. Turnover and segment reporting (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. Hong Kong is a major market for the Group's businesses. Australia and United States are the major markets for property investment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		Australia		United States		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,480,854	1,564,140	115,568	116,072	22,878	23,423	3,772	22,674	1,623,072	1,726,309
Segment result	70,556	72,345	112,673	113,584	9,559	8,666	2,935	(4,223)	195,723	190,372
Gain on disposal of investment properties in Australia	–	–	14,624	48,658	–	–	–	–	14,624	48,658
	70,556	72,345	127,297	162,242	9,559	8,666	2,935	(4,223)	210,347	239,030
Interest income									30,920	21,825
Unallocated operating income net of expenses									78,845	30,889
Profit from operations									320,112	291,744
Finance costs									(55,817)	(52,840)
									264,295	238,904
Share of profits less losses of associates									119,940	146,069
Profit from ordinary activities before taxation									384,235	384,973
Taxation									(87,328)	(145,805)
Profit from ordinary activities after taxation									296,907	239,168
Minority interests									(530)	(684)
Profit attributable to shareholders									296,377	238,484

2. Turnover and segment reporting (Continued)

Geographical segments (Continued)

	Hong Kong		Australia		United States		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment assets	2,435,054	2,552,209	1,501,551	1,447,740	156,654	139,393	44,894	37,464	4,138,153	4,176,806
Inter-segment elimination	(9,998)	(13,768)	–	–	–	–	–	–	(9,998)	(13,768)
	2,425,056	2,538,441	1,501,551	1,447,740	156,654	139,393	44,894	37,464	4,128,155	4,163,038
Capital expenditure incurred during the year	15,864	9,740	7,859	3,059	3,402	2,098	–	–	27,125	14,897

3. Other revenue and other net gain

	2003	2002
	$'000	$'000
Other revenue		
Dividend and interest income from securities		
– listed	2,627	2,795
– unlisted	1,434	1,486
Other interest income	30,920	21,825
Others	2,054	3,092
	37,035	29,198
Other net gain		
Net gain on disposal of fixed assets	1,386	3
Net exchange gain	54,643	24,968
Net realised gain on trading securities	1,475	584
Net realised gain on disposal of non-trading securities (note)	–	21,595
Net unrealised gain/(loss) on trading securities	32,426	(7,595)
Write back of impairment loss on non-trading securities	3,097	5,768
	93,027	45,323

Note: Net realised gain on disposal of non-trading securities in 2002 included a surplus of $21,500,000 (note 28 (a)) transferred from the investment revaluation reserve.

4. Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	2003 $'000	2002 restated $'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	55,817	52,840
(b) Staff costs:		
Contributions to defined contribution retirement plans	10,074	10,274
Salaries, wages and other benefits	163,820	175,399
	173,894	185,673
(c) Rentals received and receivable from investment properties:		
Gross rentals	(258,229)	(280,809)
Direct outgoings	68,526	66,805
	(189,703)	(214,004)
(d) Other items:		
Cost of inventories sold	953,199	1,021,603
Operating lease charges		
– rental of land and buildings	98,574	113,324
– contingent rentals	655	837
Depreciation and amortisation		
– owned assets	59,258	61,305
– assets held for use under finance lease	339	–
Amortisation of goodwill	235	284
Recognition of negative goodwill	(352)	(350)
Impairment of fixed assets	3,487	–
Auditors' remuneration		
– current year	2,172	2,526
– previous year	–	39

5. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2003	2002
		restated
	$'000	$'000
Current taxation – Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	18,977	16,168
Under-provision in respect of prior years	1,195	97
	20,172	16,265
Current taxation – Overseas		
Tax for the year	20,129	8,329
Under/(over)-provision in respect of prior years	4,770	(79)
	24,899	8,250
Deferred tax		
Origination and reversal of temporary differences	(3,992)	49,320
Effect of increase in tax rate on deferred tax balances at 1 January	185	–
	(3,807)	49,320
Share of associates' taxation		
Tax for the year	48,957	79,290
Over-provision in respect of prior years	(2,893)	(7,320)
	46,064	71,970
Total income tax expense	87,328	145,805

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase has been taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Income tax in the consolidated income statement (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003	2002 restated
	$'000	$'000
Profit from ordinary activities before taxation	384,235	384,973
Notional Hong Kong Profits Tax calculated at 17.5% (2002: 16%)	67,241	61,596
Tax effect of non-deductible expenses	6,799	27,813
Tax effect of non-taxable revenue	(19,182)	(15,844)
Tax effect of prior years' tax losses utilised this year	(1,183)	(34,157)
Tax effect of temporary differences not recognised	4,122	3,264
Tax effect of unused tax losses not recognised	1,236	5,484
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	185	–
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	25,041	104,950
Effect of overseas withholding tax	(3)	1
Under/(over)-provision in prior years	3,072	(7,302)
Actual tax expense	87,328	145,805

6. Discontinuing operation

In January 2002, the Group entered into an agreement with the landlord of the Group's Tianjin department store to cease the department store operation. The results of the Tianjin department store operation had been included in the department store segment and the "other" geographical segment. Adjustments were made to reduce the value of assets to their recoverable amounts and to provide for other expected liabilities and expenses to be incurred by the subsidiaries in connection with the cessation of business. The operation ceased on 1 May 2002 and the assets of the operation have been realised in an orderly manner to pay off liabilities.

The net liabilities of the discontinuing operation as at 31 December 2003 were as follows:

	2003	2002
	$'000	$'000
Non-current assets	668	1,219
Current assets	109	2,286
Current liabilities	(10,804)	(15,610)
Net liabilities	(10,027)	(12,105)

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(Continued)

(Expressed in Hong Kong dollars)

7. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of $21,067,000 (2002: loss of $131,950,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2003 $'000	**2002** $'000
Amount of consolidated profit/(loss) attributable to shareholders dealt with in the Company's financial statements	21,067	(131,950)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	–	–
Company's profit/(loss) for the year (note 28(b))	21,067	(131,950)

8. Dividends

(a) Dividends attributable to the year

	2003 $'000	**2002** $'000
Interim dividend declared and paid of 13 cents (2002: 17 cents) per share	38,392	50,205
Final dividend proposed after the balance sheet date of 39 cents (2002: 26 cents) per share	115,177	76,785
	153,569	126,990

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, proposed, approved and paid during the year

	2003 $'000	**2002** $'000
Final dividend in respect of the previous financial year, proposed, approved and paid during the year, of 26 cents (2002: 12 cents) per share	76,785	35,439

9. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of $296,377,000 (2002 (restated): $238,484,000) divided by 295,326,000 shares (2002: 295,326,000 shares) in issue during the year.

There were no outstanding potential ordinary shares throughout the years presented.

10. Emoluments of directors, five highest paid individuals and employees

(a) Emoluments of directors

(i) The aggregate emoluments of the directors are as follows:

	2003	2002
	$'000	$'000
Fees	490	490
Salaries, allowances and benefits in kind	4,973	5,209
Contributions to defined contribution retirement plans	127	127
Discretionary bonuses	–	106
	5,590	5,932

(ii) The emoluments of the directors are within the following bands:

	Number of directors	
	2003	2002
$		
0 – 500,000	7	8
500,001 – 1,000,000	2	2
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	–
2,500,001 – 3,000,000	–	1
	11	12

(iii) Included in the emoluments of directors are emoluments of $490,000 (2002: $490,000) received by the independent non-executive directors.

(b) Emoluments of five highest paid individuals

(i) The five highest paid individuals in the Group include two (2002: two) directors whose emoluments are shown in (a)(i) above. The emoluments of the other three (2002: three) individuals who comprise the five highest paid individuals are:

	2003	2002
	$'000	$'000
Salaries, allowances and benefits in kind	6,614	5,955
Contributions to defined contribution retirement plans	369	348
Discretionary bonuses	–	86
	6,983	6,389

10. Emoluments of directors, five highest paid individuals and employees (Continued)

(b) Emoluments of five highest paid individuals (Continued)

(ii) The above emoluments are analysed as follows:

	Number of individuals 2003	2002
$		
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	–	–
2,000,001 – 2,500,000	–	1
2,500,001 – 3,000,000	2	1
	3	3

(c) Employees' emoluments

The aggregate emoluments of all employees of the Group are as follows:

	2003 $'000	2002 $'000
Salaries, allowances and benefits in kind	160,530	175,600
Contributions to defined contribution retirement plans	10,074	10,274
Severance payments provided for/(written back)	3,290	(901)
Discretionary bonuses	–	700
	173,894	185,673

11. Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") and a number of MPF exempted defined contribution schemes ("MPF exempted schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both the MPF scheme and the MPF exempted schemes are defined contribution retirement schemes administered by independent trustees. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the employees' basic monthly salaries which is dependent on their length of service within the Group. The Group's contributions to the MPF scheme vest immediately while the Group's contributions to the MPF exempted schemes vest according to the length of service within the Group. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total contribution for the year was $10,201,000 (2002: $10,401,000).

12. Change of accounting policy

Income tax

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out in note 1(m). As a result of the adoption of this accounting policy, the Group's net assets at 31 December 2003 have decreased by $60,006,000 (2002: $89,716,000), the Group's profit from ordinary activities after taxation has decreased by $4,058,000 (2002: $3,802,000), the investment property revaluation reserve has increased by $31,106,000 (2002: $18,287,000), the land and building revaluation reserve has decreased by $2,512,000 (2002: $Nil) and the exchange reserve has increased by $5,174,000 (2002: decreased by $4,444,000).

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

13. Fixed assets

(a) The Group

	Land and buildings $'000	Other assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:					
At 1 January 2003	620,063	492,241	1,112,304	3,396,707	4,509,011
Exchange adjustments	(81)	317	236	466,064	466,300
Additions	–	15,891	15,891	11,234	27,125
Disposals	(5,207)	(6,051)	(11,258)	(260,897)	(272,155)
Transfer	(7,337)	–	(7,337)	2,070	(5,267)
Deficit on revaluation	–	–	–	(191,691)	(191,691)
At 31 December 2003	607,438	502,398	1,109,836	3,423,487	4,533,323
Accumulated depreciation, amortisation and impairment:					
At 1 January 2003	122,501	346,964	469,465	–	469,465
Exchange adjustments	(71)	270	199	–	199
Charge for the year	15,265	44,332	59,597	–	59,597
Written back on disposals	(4,673)	(5,548)	(10,221)	–	(10,221)
Transfer	(5,267)	–	(5,267)	–	(5,267)
Impairment loss	–	3,487	3,487	–	3,487
At 31 December 2003	127,755	389,505	517,260	–	517,260
Net book value:					
At 31 December 2003	479,683	112,893	592,576	3,423,487	4,016,063
At 31 December 2002	497,562	145,277	642,839	3,396,707	4,039,546

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(Expressed in Hong Kong dollars)

13. Fixed assets (Continued)

(a) The Group (Continued)

The analysis of cost or valuation of the fixed assets of the Group is as follows:

	At cost, less provision $'000	At professional valuation in 2003 $'000	At directors' valuation in 1981 $'000	Total $'000
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	120	–	150,263	150,383
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	13,655	–	–	13,655
Investment properties				
Long lease				
– in Hong Kong	–	1,435,500	–	1,435,500
– outside Hong Kong	–	86,357	–	86,357
Medium term lease in Hong Kong	–	289,665	–	289,665
Freehold outside Hong Kong	–	1,611,965	–	1,611,965
Other fixed assets	502,398	–	–	502,398
	959,573	3,423,487	150,263	4,533,323

(b) In preparing these financial statements, advantage has been taken of the provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKSA, with the effect that certain land and buildings which were revalued by the Directors in 1981 have not been revalued to fair value at the balance sheet date.

(c) The carrying amount of land and buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation is as follows:

	Group	
	2003 $'000	**2002** $'000
Cost	542,019	554,644
Accumulated depreciation	(99,942)	(90,461)
Net book value	442,077	464,183

13. Fixed assets (Continued)

(d) Investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an open market value basis at 31 December 2003. Investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Limited, Registered Valuers, CB Richard Ellis (V) Pty Ltd, Certified Practising Valuers, Bolton & Baer, Licensed Real Estate Appraisers, or HT Appraisal, Inc., Certified General Real Estate Appraiser on an open market value basis at 31 December 2003. The revaluation deficit, after minority interests, of $191,400,000 (2002: $224,728,000) has been transferred to the investment property revaluation reserve (note 28(a)).

(e) The Group leases computer equipment under finance lease arrangement. At the end of the lease term, the title of the computer equipment will be transferred to the Group. The lease does not include contingent rentals.

The net book value of computer equipment held under finance leases at 31 December 2003 was $1,511,000 (2002: $Nil).

(f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to eighteen years, with an option to renew the lease upon expiry at which time all terms will be renegotiated. None of the leases includes contingent rentals.

The gross carrying amount of investment properties of the Group held for use in operating leases was $3,423,487,000 (2002: $3,396,707,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2003	**2002**
	$'000	$'000
Within one year	190,630	188,457
After one year but within five years	350,000	363,332
After five years	62,938	5,045
	603,568	556,834

(g) Other assets comprise plant, equipment, fixtures and fittings and motor vehicles.

(h) Included in the impairment of fixed assets of $3,487,000, is an amount of $3,484,000 attributable to the Hong Kong department store operation. The closure of two branches of the department store operation in Hong Kong in early 2004 caused the Group to assess the recoverable amount of furniture and fixtures attributable to the Hong Kong department store operation. Based on this assessment, the carrying amount of the assets of the two branches was written down by $3,484,000 at 31 December 2003. The estimates of recoverable amount were based on the assets' value in use.

(i) An investment property located in Australia were disposed of in November 2003 which gave rise to a profit before tax of $14,624,000. Bank loans totalling $134,990,000 secured by mortgage on the property were repaid upon its disposal.

14. Interest in subsidiaries

	Company 2003	Company 2002
	$'000	$'000
Unlisted shares, at cost	2,801,990	2,801,991
Amounts due from subsidiaries	1,389,442	1,505,945
	4,191,432	4,307,936
Amount due to a subsidiary	–	(1)
	4,191,432	4,307,935
Impairment loss	(597,615)	(619,521)
	3,593,817	3,688,414

Details of the principal subsidiaries are set out on pages 68 to 72.

15. Goodwill

	Positive goodwill	Negative goodwill	Total
	$'000	$'000	$'000
Cost:			
At 1 January and at 31 December 2003	178,553	(2,558)	175,995
Accumulated amortisation:			
At 1 January 2003	176,905	(2,558)	174,347
Amortisation for the year	235	–	235
At 31 December 2003	177,140	(2,558)	174,582
Carrying amount:			
At 31 December 2003	1,413	–	1,413
At 31 December 2002	1,648	–	1,648

The amortisation of positive goodwill for the year is included in "other operating expenses" in the consolidated income statement.

16. Interest in associates

	Group 2003 $'000	Group 2002 $'000
Unlisted shares		
Share of net assets other than goodwill	539,851	484,870
Share of unamortised goodwill	45,887	42,440
Negative goodwill on acquisition	(2,812)	(3,164)
Amounts due from associates less provision	1,272	1,197
Amount due to an associate	(58)	(58)
	584,140	525,285

(a) Details of the principal associates are set out on page 73.

(b) Additional information in respect of the Group's material associate, WL Investments Limited ("WL"), extracted from its audited financial statements, is given as follows:

	2003 $'000	2002 $'000
Operating results		
Turnover	10,383,814	9,531,981
Profit before taxation	255,209	310,892
Profit after taxation	157,201	157,762
Group's share of profit after taxation attributable to the material associate	73,884	74,148
Non-current assets	1,115,376	1,077,989
Current assets*	1,783,182	1,457,683
Total assets	2,898,558	2,535,672
Current liabilities	1,032,974	746,196
Non-current liabilities	619,219	667,444
Total liabilities	1,652,193	1,413,640
Net assets	1,246,365	1,122,032
Group's share of net assets attributable to the material associate	585,791	527,355

* Current assets comprise mainly inventories of motor vehicles.

At the balance sheet date, the Group had an equity interest of 50% in WL. Due to the existence of a phantom stock plan for the benefit of WL's key employees, the Group's effective share of the results and net assets of WL is 47%.

16. Interest in associates (Continued)

(c) During 2003, WL disposed of certain investment properties in the USA for a cash consideration of US$1,801,000 (approximately $14,001,000), resulting in a loss before taxation of US$154,000 (approximately $1,197,000). The Group's share of this loss before taxation amounted to approximately $562,000 and is included in the Group's share of profits less losses of associates in the consolidated income statement.

In 2002, WL disposed of certain investment properties in the USA for a cash consideration of US$51,500,000 (approximately $401,031,000), resulting in a profit before taxation of US$10,688,000 (approximately $83,227,000). The transaction contributed a profit before taxation of $39,117,000 to the Group for the year ended 31 December 2002. The amount included a transfer from investment property revaluation reserve of $45,820,000 (note 28(a)).

17. Non-trading securities

	Group	
	2003	**2002**
	$'000	$'000
Equity securities		
– Listed outside Hong Kong, at market value	23,159	20,062
– Unlisted	53,141	54,950
	76,300	75,012

18. Trading securities

	Group	
	2003	**2002**
	$'000	$'000
Debt securities		
– Listed outside Hong Kong, at market value	9,422	9,179
Equity securities		
Listed:		
– in Hong Kong, at market value	53,809	33,449
– outside Hong Kong, at market value	30,640	18,986
	84,449	52,435
	93,871	61,614

19. Inventories

Of the total inventories of $60,649,000 (2002: $63,777,000), the amount of inventories carried at net realisable value is $33,232,000 (2002: $36,932,000). A general provision of $2,009,000 (2002: $1,997,000) has also been made against inventories at the balance sheet date.

20. Debtors, deposits and prepayments

	Group		Company	
	2003	**2002**	**2003**	**2002**
	$'000	$'000	$'000	$'000
Trade and other debtors, net of provision for doubtful debts	14,974	17,755	–	–
Deposits and prepayments	44,689	50,885	209	203
	59,663	68,640	209	203

(a) The ageing analysis of trade and other debtors, net of provision for doubtful debts, is as follows:

	Group	
	2003	**2002**
	$'000	$'000
Current	14,490	15,772
One to three months overdue	368	573
More than three months overdue	116	1,410
	14,974	17,755

Debts are normally due within 30 days from the date of billing.

(b) All deposits and prepayments, apart from certain rental deposits totalling $8,945,000 (2002: $24,134,000), are expected to be recovered within one year.

21. Cash and cash equivalents

	Group		Company	
	2003	**2002**	**2003**	**2002**
	$'000	$'000	$'000	$'000
Cash at bank and in hand	80,979	50,835	1,942	1,026
Bank deposits	960,270	693,752	–	–
Cash and cash equivalents in the consolidated balance sheet	1,041,249	744,587	1,942	1,026
Bank deposits pledged	(37,109)	(29,908)	–	–
Cash and cash equivalents in the consolidated cash flow statement	1,004,140	714,679	1,942	1,026

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(Expressed in Hong Kong dollars)

22. Creditors and accrued charges

	Group		Company	
	2003	**2002**	**2003**	**2002**
	$'000	$'000	$'000	$'000
Trade and other creditors	217,920	207,637	–	–
Accrued charges	38,160	44,873	8,992	8,557
	256,080	252,510	8,992	8,557

The ageing analysis of trade and other creditors is as follows:

	Group	
	2003	**2002**
	$'000	$'000
Amounts not yet due	175,098	167,194
On demand or overdue for less than one month	37,675	32,971
One to three months overdue	1,976	1,474
Three to twelve months overdue	3,171	5,998
	217,920	207,637

23. Non-current interest-bearing bank loans

	Group	
	2003	**2002**
	$'000	$'000
Bank loans (note 24)		
– secured	872,237	806,357
Amounts due within one year included under current liabilities	(83,505)	(71,256)
	788,732	735,101

24. Bank loans

At 31 December 2003, the bank loans of the Group were repayable as follows:

	Group	
	2003	**2002**
	$'000	$'000
Within one year or on demand	83,505	71,256
After one year but within two years	46,396	39,616
After two years but within five years	742,336	695,485
	788,732	735,101
	872,237	806,357

24. Bank loans (Continued)

A bank loan of $37,109,000 repayable on 31 March 2004 included under current liabilities, is subject to annual review under a lending facility guaranteed by the Group.

At 31 December 2003, certain assets of the Group with the following net book values have been pledged to banks to secure banking facilities to the extent of $1,133,030,000 (2002: $1,018,815,000) granted to the Group:

	Group	
	2003	**2002**
	$'000	$'000
Land and buildings	109,716	111,549
Investment properties	2,776,591	2,899,480
Trading securities	–	5,925
Bank deposits	37,109	29,908
	2,923,416	3,046,862

25. Obligations under finance leases

At 31 December 2003, the Group had minimum lease payments obligations under finance leases repayable as follows:

	2003	**2002**
	$'000	$'000
Within one year	614	–
After one year but within two years	614	–
After two years but within five years	51	–
	665	–
	1,279	–

26. Income tax in the balance sheet

(a) Taxation in the balance sheet represents:

	Group	
	2003	**2002**
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	18,977	16,168
Provisional Profits Tax paid	(13,854)	(14,051)
	5,123	2,117
Overseas taxation payable	16,262	6,589
	21,385	8,706

26. Income tax in the balance sheet (Continued)

(a) Taxation in the balance sheet represents (Continued):

	2003 $'000	2002 $'000
Represented by:		
Tax recoverable	(1,750)	(68)
Tax payable	23,135	8,774
	21,385	8,706

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	Revaluation of properties $'000	Provisions $'000	Future benefit of tax losses $'000	Total $'000
Deferred tax arising from:					
At 1 January 2003	5,361	188,588	496	(2)	194,443
Charged/(credited) to the consolidated income statement	1,194	(3,881)	(1,120)	–	(3,807)
Charged/(credited) to reserves	1	(4,553)	6	–	(4,546)
At 31 December 2003	6,556	180,154	(618)	(2)	186,090
At 1 January 2002	4,461	216,026	(104)	(36,222)	184,161
Charged to the consolidated income statement	899	9,431	587	38,403	49,320
Charged/(credited) to reserves	1	(36,869)	13	(2,183)	(39,038)
At 31 December 2002	5,361	188,588	496	(2)	194,443

26. Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities recognised (Continued)

	2003	**2002**
	$'000	$'000
Net deferred tax assets recognised in the consolidated balance sheet	(849)	(410)
Net deferred tax liabilities recognised in the consolidated balance sheet	186,939	194,853
	186,090	194,443

(c) Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2003	**2002**
	$'000	$'000
Deductible temporary differences	19,018	16,110
Future benefit of tax losses	169,348	154,868
	188,366	170,978

The Group has not recognised deferred tax assets in respect of tax losses of certain subsidiaries as it is not probable that the subsidiaries will generate sufficient future taxable profits against which the accumulated tax losses may be offset in the foreseeable future. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2003, temporary differences relating to the undistributed profits of subsidiaries amounted to $999,504,000 (2002: $830,928,000). Deferred tax liabilities of $193,762,000 (2002: $154,622,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27. Share capital

	2003	**2002**
	$'000	$'000
Authorised:		
400,000,000 shares of $0.1 each	40,000	40,000
Issued and fully paid:		
295,326,000 shares of $0.1 each	29,533	29,533

28. Reserves

(a) The Group

	Investment property revaluation reserve $'000	Land and building revaluation reserve $'000	Investment revaluation reserve $'000	Exchange reserve $'000	Other capital reserves $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2003								
– as previously reported	1,066,918	204,249	43,222	(135,932)	307,132	754,347	2,121,981	4,361,917
– change in accounting policy in respect of deferred tax	(44,799)	(26,798)	–	(4,444)	–	–	(13,675)	(89,716)
– as restated	1,022,119	177,451	43,222	(140,376)	307,132	754,347	2,108,306	4,272,201
Dividends approved in respect of the previous year (note 8(b))	–	–	–	–	–	–	(76,785)	(76,785)
Revaluation surplus transferred to the consolidated income statement on disposal of investment properties (note 2(b))	(12,727)	–	–	–	–	–	–	(12,727)
Exchange gain transferred to the consolidated income statement on disposal of investment properties (note 2(b))	–	–	–	(2,062)	–	–	–	(2,062)
	(12,727)	–	–	(2,062)	–	–	–	(14,789)
Deferred tax after minority interests	31,106	(2,512)	–	(24,224)	–	–	–	4,370
Deficit on revaluation after minority interests (note 13(d))	(191,400)	–	–	–	–	–	–	(191,400)
Deficit on revaluation of non-trading securities	–	–	(1,809)	–	–	–	–	(1,809)
Share of decrease in capital reserves of associates	–	–	–	–	(12,902)	–	–	(12,902)
Exchange differences arising on consolidation	–	–	–	317,478	–	–	–	317,478
Profit for the year	–	–	–	–	–	–	296,377	296,377
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	–	–	(38,392)	(38,392)
	(160,294)	(2,512)	(1,809)	293,254	(12,902)	–	257,985	373,722
At 31 December 2003	849,098	174,939	41,413	150,816	294,230	754,347	2,289,506	4,554,349

28. Reserves (Continued)

(a) The Group (Continued)

	Investment property revaluation reserve $'000	Land and building revaluation reserve $'000	Investment revaluation reserve $'000	Exchange reserve $'000	Other capital reserves $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2002								
– as previously reported	1,366,017	204,249	93,880	(236,737)	294,937	754,347	1,965,339	4,442,032
– change in accounting policy in respect of deferred tax	(63,086)	(26,798)	–	–	–	–	(9,873)	(99,757)
– as restated	1,302,931	177,451	93,880	(236,737)	294,937	754,347	1,955,466	4,342,275
Dividends approved in respect of the previous year (note 8(b))	–	–	–	–	–	–	(35,439)	(35,439)
Revaluation surplus transferred to the consolidated income statement on disposal of investment properties (note 2(b))	(59,622)	–	–	–	–	–	–	(59,622)
Exchange loss transferred to the consolidated income statement on disposal of investment properties (note 2(b))	–	–	–	14,109	–	–	–	14,109
	(59,622)	–	–	14,109	–	–	–	(45,513)
Deferred tax after minority interests	49,358	–	–	(10,787)	–	–	–	38,571
Deficit on revaluation after minority interests (note 13(d))	(224,728)	–	–	–	–	–	–	(224,728)
Revaluation surplus transferred to the consolidated income statement on disposal of investment properties of an associate (note 16(c))	(45,820)	–	–	(469)	–	–	–	(46,289)
Deficit on revaluation of non-trading securities	–	–	(29,158)	–	–	–	–	(29,158)
Revaluation surplus transferred to the consolidated income statement on disposal of non-trading securities	–	–	(21,500)	(148)	–	–	–	(21,648)
Share of increase in capital reserves of associates	–	–	–	–	12,195	–	–	12,195
Exchange differences arising on consolidation	–	–	–	93,656	–	–	–	93,656
Profit for the year	–	–	–	–	–	–	238,484	238,484
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	–	–	(50,205)	(50,205)
	(221,190)	–	(50,658)	82,252	12,195	–	188,279	10,878
At 31 December 2002	1,022,119	177,451	43,222	(140,376)	307,132	754,347	2,108,306	4,272,201

28. Reserves (Continued)

(b) The Company

	Contributed surplus $'000	**Retained profits** $'000	**Total** $'000
At 1 January 2003	2,997,350	654,203	3,651,553
Dividends approved in respect of the previous year (note 8(b))	–	(76,785)	(76,785)
Profit for the year	–	21,067	21,067
Dividends declared and paid in respect of the current year (note 8(a))	–	(38,392)	(38,392)
At 31 December 2003	2,997,350	560,093	3,557,443

	Contributed surplus $'000	**Retained profits** $'000	**Total** $'000
At 1 January 2002	2,997,350	871,797	3,869,147
Dividends approved in respect of the previous year (note 8(b))	–	(35,439)	(35,439)
Loss for the year	–	(131,950)	(131,950)
Dividends declared and paid in respect of the current year (note 8(a))	–	(50,205)	(50,205)
At 31 December 2002	2,997,350	654,203	3,651,553

(c) The capital reserves, exchange reserve and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of investment properties and investment in securities (note 1).

(d) Pursuant to the Scheme of Arrangement in 1991, the former holding company of the Group became a subsidiary of the Company. The excess value of the consolidated net assets of the subsidiaries acquired over the nominal value of the new shares of the Company issued under the Scheme of Arrangement was credited to the contributed surplus of the Company. The Group's contributed surplus represents the excess of the aggregate of the nominal value of the share capital and share premium of the former holding company over the nominal value of the new shares of the Company issued under the Scheme of Arrangement.

In addition to the retained profits, under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders. However, the directors have no current intention to distribute this surplus.

28. Reserves (Continued)

(e) The Group's share of the post-acquisition accumulated reserves of associates is as follows:

	2003	2002
	$'000	$'000
Other capital reserves	35,526	48,428
Retained profits	380,483	306,607
	416,009	355,035

29. Contingent liabilities

The Company has undertaken to guarantee certain loans and other facilities granted to certain subsidiaries to the extent of $927,920,000 (2002: $819,175,000), of which $835,128,000 (2002: $774,717,000) were utilised at 31 December 2003.

30. Commitments

(a) Capital commitments

Capital commitments of the Group at 31 December 2003 not provided for in the financial statements were as follows:

	2003	2002
	$'000	$'000
Authorised and contracted for	1,601	293
Authorised but not contracted for	–	7,626
	1,601	7,919

(b) Commitments under operating leases

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases of the Group are payable as follows:

	2003	2002
	$'000	$'000
Within one year	32,611	97,577
After one year but within five years	11,740	40,612
After five years	–	–
	44,351	138,189

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to eight years, with an option to renew the lease upon expiry when all terms are renegotiated. Certain leases contain a contingent rental element. The amount of contingent rent incurred in 2003 is stated in note 4(d).

31. Related party transactions

Fellow subsidiaries represent subsidiaries of Wing On International Holdings Limited, the Company's immediate holding company. Material related party transactions are as follows:

(a) A fellow subsidiary rents retail premises to a subsidiary. Rental and management fees payable to this fellow subsidiary amounted to $14,611,000 (2002: $14,409,000) during the year. The net amount due to the fellow subsidiary at 31 December 2003 amounted to $2,586,000 (2002: $4,872,000).

(b) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to $2,024,000 (2002: $2,445,000) during the year. The net amount due from the fellow subsidiary at 31 December 2003 amounted to $92,000 (2002: $279,000).

(c) The Company reimbursed a fellow subsidiary for the sharing of office space and facilities. Reimbursements payable to this fellow subsidiary amounted to $120,000 (2002: $144,000) during the year. The amount had been fully settled by the balance sheet date.

(d) A fellow subsidiary, engaging in securities trading, deals in securities for certain subsidiaries of the Group. Commission of $37,000 (2002: $20,000) was payable to the fellow subsidiary during the year. The amounts due from the fellow subsidiary at 31 December 2003 amounted to $2,364,000 (2002: $127,000).

32. Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 12.

33. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2003 to be Kee Wai Investment Company (BVI) Limited, which is incorporated in the British Virgin Islands.