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 include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the 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. 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 land and buildings, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, 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 Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and controlled entities (continued)

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), 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 in the balance sheet at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity'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 investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates and jointly controlled entities (continued)

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

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less any impairment losses (see note 1(j)), 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 investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(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:

— for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses recognised in the consolidated income statement (see note 1(j)); and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (continued)

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1 January 2001, 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.

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 and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries, associates and jointly entities are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as short term investments when they were acquired principally for the purpose of generating a profit from short term fluctuations in price.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Fixed assets

(i) Fixed assets are carried in the balance sheets on the following bases:

- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;

- land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 1(i)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

- equipment and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fixed assets (continued)

(ii) Changes arising on the revaluation of investment properties and land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement if, and to the extent that, it exceeds the amount held in the reserve in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement if, and to the extent that, a deficit on revaluation in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) 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 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 properties revaluation reserve is also transferred to the income statement for the year. For land and buildings, any related revaluation surplus is transferred from the revaluation reserve to the revenue reserve.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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 held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(p)(vii).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(i) Amortisation and depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives as follows:

— leasehold land and buildings are depreciated on a straight-line basis over the remaining term of the lease;

— other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the shorter of remaining term of the lease and 5 - 6 years
Furniture, fixtures and equipment	3 - 7 years
Communications equipment	6 years
Motor vehicles	3 - 5 years

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets

The following assets are reviewed at each balance sheet date for any indications of impairment and/or to evaluate the appropriateness of any impairment loss provision previously made:

— property and equipment (other than properties carried at revalued amounts);

— investments in subsidiaries, associates and jointly controlled entities (except for those accounted for at fair value under notes 1(c) and 1(d)); and

— goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, an impairment loss is recognised in the income statement to the extent of the excess of the carrying amount of the asset over 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).

(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 an impairment loss 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 income statement in the year in which reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Inventories

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

Cost is calculated using the first-in, first-out formula or, where applicable, on a specific identification basis, and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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.

(l) 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 of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) 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 Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and defined contribution provident fund schemes and retirement costs in respect of overseas employees according to local requirements are recognised as an expense in the income statement as incurred.

(iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are 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 respectively, being the difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. 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. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those 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 (provided they are not part of a business combination), 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 recognised is measured 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

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 profit 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 profit 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.

(iv) Current tax balances and deferred tax balances, and movement therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets are offset against deferred tax liabilities 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

— 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.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or 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 expenditures 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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 income statement as follows:

(i) Wholesale and retail of fashion wear and accessories

Revenue is recognised when goods are delivered to customers, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts and sales returns.

(ii) Telecommunications services

Telecommunications services include the provision of telecommunications services and marketing and distribution of network cards.

Provision of telecommunications services

Revenue from telecommunications services, comprising proprietary services and carrier operations, is recognised when the services are rendered on the basis of traffic statistics agreed with international telecommunications carriers to the extent of the amounts expected to be received.

Revenue received from certain international telecommunications carriers is subject to clawback arrangements, whereby the originating/transit international telecommunications carriers may clawback amounts previously paid if subsequently they do not receive the corresponding payments from the end customers/other intermediate carriers respectively. Actual and potential clawbacks are taken into consideration in calculating the amount of revenue to be recognised.

Marketing and distribution of network cards

Revenue from marketing and distribution of network cards is recognised at the time when the services are rendered and the Group's right to receive payment is established.

(iii) Recreational club operation

Entrance fees are recognised when the application for club membership is accepted and no significant uncertainty as to collectability exists. Annual subscription fees are recognised over the relevant period of the membership. Revenue from the provision of club facilities, catering and other services is recognised when goods are delivered or services are rendered.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

(iv) Consulting, management and other services

Revenue from the provision of consulting, management and other services is recognised when the relevant services have been provided and the Group's right to receive payment is established.

(v) Dividends

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(vi) Interest income

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

(vii) Sub-leasing rental income

Rental income receivable under operating sub-leases is recognised in the 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 income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(q) 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 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 exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) 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.

(s) 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, 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.

2 TURNOVER

The principal activities of the Group are wholesale and retail of fashion wear and accessories, provision of telecommunications services (including marketing and distribution of network cards), operation of recreational clubs, and investment and treasury operations. The amount of each significant category of revenue recognised in turnover is as follows:

	2003	2002
	$'000	*$'000*
Wholesale and retail of fashion wear and accessories	**52,636**	—
Telecommunications services*	**50,606**	117,735
Recreational club operation	**20,647**	24,351
Dividend income from listed investments	**4,162**	40,696
Dividend income from unlisted investments	**3,409**	—
Interest income	**7,140**	10,577
	138,600	193,359

* Included in turnover from the provision of telecommunications services for the year ended 31 December 2003 is a sum of $25,572,000 received from a final transit carrier in respect of traffic revenue generated in prior years which was not recognised previously in view of the uncertainty of its collectibility.

3 OTHER REVENUE AND OTHER NET LOSS

	2003	2002
	$'000	*$'000*
Other revenue		
Consulting services fees	**1,015**	1,043
Sub-leasing rental income	**1,244**	—
Management fees	**876**	—
Gain on the waiver of repayment of other loans	**600**	—
Others	**761**	496
	4,496	1,539
Other net loss		
Net realised and unrealised loss on investments in securities	**(17,707)**	(90,057)
Net loss on disposal of fixed assets	**(258)**	(56)
	(17,965)	(90,113)

4 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 *$'000*	2002 *$'000*
(a) Finance costs:		
Interest on bank loans and overdrafts	**969**	1,253
(b) Staff costs (including directors' remuneration):		
Contributions to defined contribution plans	**1,342**	1,060
Salaries, wages and other benefits	**48,034**	43,346
	49,376	44,406
(c) Other items:		
Cost of inventories sold	**31,253**	3,982
Depreciation	**11,664**	13,077
Auditors' remuneration	**2,025**	1,256
Amortisation of goodwill	**267**	—
Exchange gain	**(671)**	(873)
(Write back of deficit)/deficit on revaluation of land and buildings	**(9,699)**	15,038
Operating lease charges on land and buildings		
— minimum lease payments	**9,419**	4,354
— contingent rentals	**3,046**	—
Write back of provision for impairment loss on and non-recoverable amounts due from associates	**(171)**	(306)
Impairment loss on fixed assets	**3,600**	—
Rentals receivable under operating leases in respect of subleased land and buildings including contingent rentals of $215,000 (2002: $Nil), net of outgoings	**572**	—
(d) Included in share of profits less losses of associates:		
— amortisation of goodwill	**1,815**	1,815
— impairment loss on goodwill	**14,519**	—

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003	2002
	$'000	$'000
Current tax - Provision for Hong Kong Profits Tax		
Tax for the year	3	3
Underprovision in respect of prior years	—	1
	3	4
Current tax - Overseas		
Tax for the year	115	307
(Over)/underprovision in respect of prior years	(7)	1
	108	308
Deferred tax *(note 29(b))*	—	(7)
Share of associates' taxation	—	29
	111	334

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 is 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. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

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

	2003	2002
	$'000	$'000
Loss before tax	**(32,440)**	(119,101)
Notional tax on loss before tax, calculated at the applicable tax rates in the jurisdictions concerned	**(6,897)**	(19,885)
Tax effect of non-deductible expenses	**20,262**	51,095
Tax effect of non-taxable revenue	**(17,406)**	(43,843)
Tax effect of unused tax losses not recognised	**6,933**	13,050
Tax effect of prior years' tax losses utilised in current year	**(2,774)**	(85)
(Over)/under-provision in prior years	**(7)**	2
Actual tax expense	**111**	334

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
	$'000	$'000
Fees	**140**	140
Other emoluments paid to executive directors:		
— Salaries and other emoluments	**5,747**	7,166
— Retirement scheme contributions	**36**	46
	5,923	7,352

Included in the directors' remuneration were fees of $40,000 (2002: $40,000) paid to independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	2003 Number of directors	2002 Number of directors
$Nil - $1,000,000	**5**	4
$1,000,001 - $1,500,000	**—**	1
$1,500,001 - $2,000,000	**1**	1
$3,500,001 - $4,000,000	**1**	1

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 2 (2002: 3) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other 3 (2002: 2) individuals are as follows:

	2003	2002
	$'000	*$'000*
Salaries and other emoluments	**3,274**	2,429
Retirement scheme contributions	**34**	24
	3,308	2,453

The emoluments of the 3 (2002: 2) individuals with the highest emoluments are within the following bands:

	2003	2002
	Number of individuals	Number of individuals
$500,001 - $1,000,000	**2**	—
$1,000,001 - $1,500,000	**1**	2

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $35,238,000 (2002: $119,072,000) which has been dealt with in the financial statements of the Company.

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $34,069,000 (2002: $119,435,000) and the 1,650,658,000 ordinary shares in issue during both years.

(b) Diluted loss per share

The diluted loss per share for the years ended 31 December 2003 and 2002 is the same as the basic loss per share as the exercise of outstanding share options in full would have an anti-dilutive effect on the loss per share.

10 CHANGE IN ACCOUNTING POLICY

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 Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(n). The adoption of this accounting policy has no material effect on the Group's results for the current and the prior years and the net assets as at the year end.

11 SEGMENT REPORTING

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.

Business segments

The Group comprises the following main business segments:

Wholesale and retail of fashion wear and accessories:	trading of fashion wear and accessories
Telecommunications services:	the provision of telecommunications services and marketing and distribution of network cards
Recreational club operation:	the provision of recreational facilities and catering services
Investment and treasury:	the holding and trading of investments for short term and long term investment returns and treasury operations
e-commerce enabling technologies:	the provision of e-commerce enabling technologies

11 SEGMENT REPORTING (CONTINUED)

Business segments (continued)

	Wholesale and retail of fashion wear and accessories		Telecommunications services		Recreational club operation		Investment and treasury		e-commerce enabling technologies		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover from external customers	52,636	–	50,606	117,735	20,647	24,351	14,711	51,273	–	–	138,600	193,359
Other revenue	2,245	–	1,062	1,043	446	439	743	57	–	–	4,496	1,539
Segment revenue	54,881	–	51,668	118,778	21,093	24,790	15,454	51,330	–	–	143,096	194,898
Segment result	3,745	–	4,922	(2,341)	(8,357)	(9,138)	(19,596)	(56,120)	–	(428)	(19,286)	(68,027)
Other group expenses											(2,412)	(2,991)
Write back of deficit/ (deficit) on revaluation of land and buildings											9,699	(15,038)
Loss from operations											(11,999)	(86,056)
Finance costs											(969)	(1,253)
Share of profits less losses of associates	–	–	–	–	(338)	–	(19,134)	(1,792)	–	–	(19,472)	(1,792)
Impairment loss on goodwill											–	(30,000)
Income tax											(111)	(334)
Minority interests											(1,518)	–
Loss attributable to shareholders											(34,069)	(119,435)
Depreciation and amortisation for the year	678	–	5,338	6,698	5,417	5,806	498	573	–	–	11,931	13,077
Impairment loss for the year	–	–	3,600	–	–	–	–	–	–	–	3,600	–
Significant non-cash expenses (other than depreciation and amortisation)	–	–	262	12	–	–	32,800	92,053	–	–	33,062	92,065
Segment assets	96,986	–	18,116	67,914	160,981	157,524	819,830	841,087	–	128	1,095,913	1,066,653
Investment in associates and jointly controlled entities	2,127	–	–	–	5,886	–	9,140	29,121	–	–	17,153	29,121
Unallocated assets											3,931	3,600
Total assets											1,116,997	1,099,374
Segment liabilities	45,253	–	64,856	76,369	20,799	22,899	2,478	3,348	–	–	133,386	102,616
Unallocated liabilities											72,300	52,244
Total liabilities											205,686	154,860
Capital expenditure incurred during the year:												
- in respect of investments	–	–	754	–	6,224	–	–	63,222	–	–	6,978	63,222
- in respect of fixed assets	3,653	–	446	166	108	518	22	–	–	–	4,229	684
	3,653	–	1,200	166	6,332	518	22	63,222	–	–	11,207	63,906

11 SEGMENT REPORTING (CONTINUED)

Geographical segments

The Group's business is conducted on a worldwide basis, but participates in six principal economic environments.

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.

	Revenue from external customers		**Segment assets**	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong	**82,443**	72,865	**941,723**	887,482
PRC (excluding Hong Kong)	**2,836**	4,042	**79,574**	85,825
Japan	**922**	29,128	**—**	—
Other Asia Pacific regions	**3,271**	6,759	**35,104**	41,110
Europe	**13,396**	50,813	**2,563**	431
North America	**35,689**	24,414	**58,033**	84,526
Others	**43**	5,338	**—**	—
	138,600	193,359	**1,116,997**	1,099,374

	Capital expenditure incurred in respect of Investments		**Capital expenditure incurred in respect of fixed assets**	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong	**—**	29,564	**3,783**	184
PRC (excluding Hong Kong)	**6,978**	—	**163**	360
Japan	**—**	—	**—**	—
Other Asia Pacific regions	**—**	29,767	**283**	121
Europe	**—**	—	**—**	19
North America	**—**	3,891	**—**	—
Others	**—**	—	**—**	—
	6,978	63,222	**4,229**	684

12 FIXED ASSETS

(a) The Group

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Communications equipment	Motor vehicles	Sub-total	Investment properties	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:								
At 1 January 2003	150,000	2,236	16,356	38,948	2,513	210,053	3,600	213,653
Exchange adjustments	—	—	1,655	1,186	41	2,882	—	2,882
Additions:								
- through acquisition of subsidiaries	4,300	—	42,132	—	1,908	48,340	—	48,340
- others	—	—	4,093	173	—	4,266	—	4,266
Surplus on revaluation	9,754	—	—	—	—	9,754	—	9,754
Less: elimination of accumulated depreciation	(4,754)	—	—	—	—	(4,754)	—	(4,754)
Disposals	—	(565)	(14,443)	(3,172)	—	(18,180)	—	(18,180)
At 31 December 2003	**159,300**	**1,671**	**49,793**	**37,135**	**4,462**	**252,361**	**3,600**	**255,961**
Representing:								
Cost	—	1,671	49,793	37,135	4,462	93,061	—	93,061
Valuation - 31 December 2003	159,300	—	—	—	—	159,300	3,600	162,900
	159,300	**1,671**	**49,793**	**37,135**	**4,462**	**252,361**	**3,600**	**255,961**
Accumulated depreciation:								
At 1 January 2003	—	823	13,895	31,820	2,150	48,688	—	48,688
Exchange adjustments	—	—	1,198	1,054	49	2,301	—	2,301
Charge for the year	4,754	535	2,217	3,856	302	11,664	—	11,664
Acquisition of subsidiaries	—	—	36,285	—	1,775	38,060	—	38,060
Impairment loss	—	—	93	3,507	—	3,600	—	3,600
Written back on revaluation	(4,754)	—	—	—	—	(4,754)	—	(4,754)
Written back on disposal	—	(383)	(14,430)	(3,102)	—	(17,915)	—	(17,915)
At 31 December 2003	**—**	**975**	**39,258**	**37,135**	**4,276**	**81,644**	**—**	**81,644**
Net book value:								
At 31 December 2003	**159,300**	**696**	**10,535**	**—**	**186**	**170,717**	**3,600**	**174,317**
At 31 December 2002	150,000	1,413	2,461	7,128	363	161,365	3,600	164,965

12 FIXED ASSETS (CONTINUED)

(a) The Group (continued)

Impairment loss

In 2003, the Group restructured its telecommunications business which resulted in the communications equipment and certain furniture and equipment being taken out of service. Accordingly, the carrying amount of these assets was written down by $3,600,000 (included in other operating expenses), based on the respective assets' estimated net selling price of $Nil.

(b) The Company

	Land and buildings	Furniture, fixtures and equipment	Sub-total	Investment properties	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:					
At 1 January 2003	100,000	3	100,003	3,600	103,603
Surplus on revaluation	7,198	—	7,198	—	7,198
Less: elimination of accumulated depreciation	(2,198)	—	(2,198)	—	(2,198)
At 31 December 2003	**105,000**	**3**	**105,003**	**3,600**	**108,603**
Representing:					
Cost	—	3	3	—	3
Valuation - 31 December 2003	105,000	—	105,000	3,600	108,600
	105,000	**3**	**105,003**	**3,600**	**108,603**
Accumulated depreciation:					
At 1 January 2003	—	2	2	—	2
Charge for the year	2,198	—	2,198	—	2,198
Written back on revaluation	(2,198)	—	(2,198)	—	(2,198)
At 31 December 2003	**—**	**2**	**2**	**—**	**2**
Net book value:					
At 31 December 2003	**105,000**	**1**	**105,001**	**3,600**	**108,601**
At 31 December 2002	100,000	1	100,001	3,600	103,601

12 FIXED ASSETS (CONTINUED)

(c) The analysis of net book value of properties is as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
In Hong Kong				
under medium-term lease	**112,900**	103,600	**108,600**	103,600
In the People's Republic of China under medium-term lease	**50,000**	50,000	**—**	—
	162,900	153,600	**108,600**	103,600

(d) Investment properties of the Group and the Company were revalued at 31 December 2003 by an independent firm of surveyors, DTZ Debenham Tie Leung Limited, on an open market value basis. No revaluation surplus or deficit on investment properties has been taken to the income statement during the current and prior years.

(e) The Group's and the Company's land and buildings held for own use were revalued at 31 December 2003 by independent firms of surveyors, DTZ Debenham Tie Leung Limited and Vigers Appraisal and Consulting Limited on an open market value basis. Among the Group's revaluation surpluses of $9,754,000 (2002: $Nil), $9,699,000 (2002: net revaluation deficit of $15,038,000) has been credited (2002: debited) to the consolidated income statement and included in other operating expenses. $33,000 (2002: $Nil) representing the remaining revaluation surplus of $55,000, net of minority interests' share of $22,000, has been transferred to the revaluation reserve. The revaluation surplus of $7,198,000 (2002: deficit of $17,419,000) for the Company has been credited (2002: debited) to the income statement.

The carrying amount of the land and buildings held for own use by the Group and the Company at 31 December 2003 would have been $133,042,000 (2002: $136,324,000) and $33,713,000 (2002: $34,488,000) respectively had they been carried at cost less accumulated depreciation.

13 GOODWILL

	The Group
	$'000
Cost:	
At 1 January 2003	—
Addition through acquisition of subsidiaries *(note 32)*	7,051
Addition through acquisition of a business	1,883
At 31 December 2003	**8,934**
Accumulated amortisation:	
At 1 January 2003	—
Amortisation for the year	267
At 31 December 2003	**267**
Carrying amount:	
At 31 December 2003	**8,667**
At 31 December 2002	—

The amortisation charge for the year is included in other operating expenses in the consolidated income statement.

14 INTEREST IN SUBSIDIARIES

	The Company	
	2003	2002
	$'000	*$'000*
Unlisted shares, at cost	**12,700**	12,700
Amounts due from subsidiaries	**1,139,989**	1,070,758
	1,152,689	1,083,458
Less: impairment loss	**(978,146)**	(914,352)
	174,543	169,106

Details of principal subsidiaries are shown on pages 66 to 67.

15 INTEREST IN ASSOCIATES

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Unlisted shares, at cost	**—**	—	**1**	1
Share of net assets	**18,686**	13,473	**—**	—
Goodwill	**14,519**	16,334	**—**	—
Loan to an associate	**2,730**	—	**—**	—
Amounts due from associates	**8,609**	9,627	**555**	1,402
	44,544	39,434	**556**	1,403
Less: Impairment loss	**(27,391)**	(10,313)	**—**	—
	17,153	29,121	**556**	1,403

As at 31 December 2003, the Group held a 29.4% effective interest in Givenchy China Co. Limited ("Givenchy China"), a company incorporated in Hong Kong which is principally engaged in the trading of fashion wear and accessories.

The Group's interest in Givenchy China was acquired through the Group's acquisition of subsidiaries on 12 October 2003 and is held for subsequent disposal in the near future for a consideration of approximately $2,127,000, as determined in accordance with the shareholders agreement entered into between a subsidiary and the majority shareholder of Givenchy China. Accordingly, this has not been equity accounted for and is stated at fair value at 31 December 2003.

The loan to an associate is unsecured, bears interest at a rate of 2.5% per annum and has no fixed terms of repayment.

Details of principal associates are shown on page 68.

16 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2003	2002
	$'000	*$'000*
Share of net liabilities	**(17,913)**	(17,913)
Amounts due from jointly controlled entities	**36,141**	36,141
	18,228	18,228
Less: impairment loss	**(18,228)**	(18,228)
	—	—

Details of principal jointly controlled entities are shown on page 68.

17 OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2003	2002
	$'000	*$'000*
Investment securities		
Equity securities listed outside Hong Kong	**2,236**	2,236
Unlisted equity securities	**21,660**	54,460
	23,896	56,696
Other securities		
Equity securities listed outside Hong Kong	**33,420**	25,066
Unlisted equity securities	**34,581**	26,801
	68,001	51,867
	91,897	108,563
Market value of listed securities	**38,312**	34,295

18 SHORT TERM INVESTMENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Trading securities (at market value)				
Equity securities listed in Hong Kong	**108,821**	102,082	**106,328**	100,044

Included in trading securities are ordinary shares of $2 each of China Motor Bus Company, Limited, which is incorporated in Hong Kong, as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Market value of ordinary shares of China Motor Bus Company, Limited	**100,874**	97,553	**100,272**	96,970
Proportion of ownership interest	**4.5%**	4.5%	**4.5%**	4.5%

19 INVENTORIES

	The Group	
	2003	2002
	$'000	*$'000*
Merchandise held for resale		
– Wholesale and retail of fashion wear and accessories	**29,108**	—
– Telecommunications services	**908**	—
Food and beverages		
– Recreational club operation	**325**	368
	30,341	368

Included in inventories are merchandise held for resale amounting to $29,108,000 (2002: $Nil), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors	**13,474**	13,647	**—**	—
Deposits, prepayments and other receivables	**34,709**	59,516	**1,733**	31,527
	48,183	73,163	**1,733**	31,527

Included in deposits, prepayments and other receivables is a short term loan to a third party in the amount of $13,180,000 (2002: $14,448,000). At 31 December 2002, there were deposits of $37,344,000 paid in respect of acquisition of equity interests in two companies. During 2003, $7,780,000 was reclassified to other non-current financial assets upon completion of the acquisition, whereas the remaining $29,564,000 was refunded to the Group.

Included in deposits, prepayments and other receivables are amounts totalling $2,602,000 (2002: $75,000) which are expected to be recovered after more than one year.

Included in trade debtors are receivables (net of provisions for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2003	2002
	$'000	*$'000*
0 - 1 month	**6,171**	3,065
2 - 3 months	**2,002**	4,394
Over 3 months	**5,301**	6,188
	13,474	13,647

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strengths of and the period of business with individual customers are considered in arriving at the respective credit terms. Reviews of major receivables are conducted regularly.

21 PLEDGED DEPOSITS

Pledges of the Company's fixed deposits of US$6,110,000 (2002: US$6,110,000) were given to banks to secure short term loans and other general banking facilities to the extent of US$6,110,000 (2002: US$6,110,000).

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks and other financial institutions	**552,642**	538,137	**552,642**	538,137
Cash at bank and in hand	**34,880**	35,439	**3,230**	9,797
	587,522	573,576	**555,872**	547,934

23 TRADE AND OTHER PAYABLES

All trade and other payables are due within one month or on demand.

24 BANK LOANS, SECURED

	The Group	
	2003	2002
	$'000	*$'000*
Bank loans	**46,680**	46,680

The bank loans of US$6,000,000 were secured by pledge of fixed deposits and were repayable on demand.

Subsequent to 31 December 2003, the Group repaid the bank loans in full, details of which are set out in note 36.

25 DEBENTURES

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the "Club") subject to the Club Rules and By-laws for so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free from monthly subscription. At 31 December 2003, the Group's debentures were redeemable as follows:

	2003	2002
	$'000	*$'000*
Within one year	**900**	4,540
In the second year	**954**	480
In the third to fifth year	**8,190**	6,744
	9,144	7,224
	10,044	11,764

All redeemable debentures are non-interest bearing and may be renewed upon maturity subject to the Group's prior consent.

26 OTHER LOANS, UNSECURED

The loans are due to a minority shareholder of a subsidiary, and are unsecured, interest free and repayable on demand.

(Expressed in Hong Kong dollars)

27 EMPLOYEE RETIREMENT BENEFITS

(a) Defined contribution provident fund schemes ("PF Schemes")

The PF Schemes are administered by independent trustees. Under the PF Schemes, both the Group and staff make monthly contributions to the PF Schemes each with an amount of 5% of the employees' basic salaries. Any forfeited contributions and related accrued interest are used to reduce the employer's contributions. For the year ended 31 December 2003, the Group's net provident fund contributions charged to the income statement amounted to $302,000 (2002: $201,000), after utilising the aggregate amount of employer's contributions forfeited during the current year of $42,000 (2002: $Nil).

(b) Mandatory provident fund schemes ("MPF Schemes")

The MPF Schemes were established in December 2000 under the Hong Kong Mandatory Provident Fund Schemes Ordinance. All new Hong Kong staff join the MPF Schemes. Under the MPF Schemes, the Group and staff are required to contribute each at 5% of the employees' relevant income (capped at $20,000). For the year ended 31 December 2003, the Group's mandatory provident fund contributions charged to the income statement amounted to $972,000 (2002: $728,000).

28 SHARE OPTION SCHEME

In an extraordinary general meeting of the Company held on 14 June 2002, the shareholders of the Company formally approved the termination of the share option scheme adopted on 30 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"), in compliance with the amended Chapter 17 of the Listing Rules. A summary of the principal terms of the New Scheme was sent to the shareholders of the Company in a circular dated 28 May 2002. All new options shall be granted under the terms and conditions of the New Scheme. No options have yet been granted under the New Scheme.

All outstanding options granted under the Old Scheme shall remain valid and exercisable under the provisions of the Old Scheme.

(a) Movements in share options

	2003 Number	2002 Number
At 1 January	**3,638,000**	9,256,000
Lapsed	**(2,318,000)**	(5,618,000)
At 31 December	**1,320,000**	3,638,000
Options vested at 31 December	**1,320,000**	3,638,000

28 SHARE OPTION SCHEME (CONTINUED)

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise price	2003 Number	2002 Number
11 October 1999	$1.528	**636,000**	636,000
22 October 1999	$1.530	**300,000**	300,000
1 December 1999	$1.804	**96,000**	144,000
27 March 2000	$1.900	**—**	1,950,000
1 August 2000	$0.630	**288,000**	408,000
18 September 2000	$0.670	**—**	200,000
		1,320,000	3,638,000

These share options are exercisable before 29 December 2007.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,320,000 additional ordinary shares of $0.01 at a total consideration of approximately $1,785,000.

29 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	2003 *$'000*	2002 *$'000*
(i) Taxation recoverable	**331**	—
(ii) Tax payable		
Provision for Hong Kong Profits Tax for the year	**3**	3
Provision for overseas taxation for the year	**115**	307
Hong Kong Profits Tax paid	**(3)**	(1)
Overseas tax paid	**(74)**	(275)
Balance of tax provision relating to prior years	**5,455**	5,440
	5,496	5,474

29 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

(b) Deferred tax assets and liabilities recognised

(i) The Group

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

	Depreciation allowances in excess of related depreciation	Tax losses	Total
	$'000	*$'000*	*$'000*
Deferred tax arising from:			
At 1 January 2002			
- as previously reported	175	(80)	95
- prior period adjustments *(note 10)*	2,361	(2,361)	—
- as restated	2,536	(2,441)	95
Exchange difference	1	—	1
(Credited)/charged to income statement	(345)	338	(7)
At 31 December 2002 (restated)	2,192	(2,103)	89
At 1 January 2003			
- as previously reported	89	—	89
- prior period adjustments *(note 10)*	2,103	(2,103)	—
- as restated	2,192	(2,103)	89
Exchange difference	28	—	28
(Credited)/charged to income statement	(455)	455	—
At 31 December 2003	**1,765**	**(1,648)**	**117**

29 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

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

(ii) The Company

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

	Depreciation allowances in excess of related depreciation	Tax losses	Total
	$'000	*$'000*	*$'000*
Deferred tax arising from:			
At 1 January 2002			
- as previously reported	—	—	—
- prior period adjustments *(note 10)*	1,053	(1,053)	—
- as restated	1,053	(1,053)	—
Charged/(credited) to income statement	102	(102)	—
At 31 December 2002 (restated)	1,155	(1,155)	—
At 1 January 2003			
- as previously reported	—	—	—
- prior period adjustments *(note 10)*	1,155	(1,155)	—
- as restated	1,155	(1,155)	—
Charged/(credited) to income statement	217	(217)	—
At 31 December 2003	**1,372**	**(1,372)**	**—**

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Net deferred tax liability recognised on the balance sheet	**117**	89	**—**	—

29 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

(c) Deferred tax assets unrecognised

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

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
		(restated)		*(restated)*
Deductible temporary differences	**(1,438)**	(352)	**—**	—
Tax losses	**(58,048)**	(44,963)	**(19,805)**	(21,956)
	(59,486)	(45,315)	**(19,805)**	(21,956)

The deductible temporary differences and tax losses do not expire under current tax legislation.

30 SHARE CAPITAL

	2003		2002	
	No. of shares		No. of shares	
	'000	***$'000***	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.01 each	**100,000,000**	**1,000,000**	100,000,000	1,000,000
Issued and fully paid:				
At 1 January	**1,650,658**	**16,507**	1,650,658	825,329
Reduction of share capital *(note 30(a) & note 31)*	**—**	**—**	—	(808,822)
At 31 December	**1,650,658**	**16,507**	1,650,658	16,507

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30 SHARE CAPITAL (CONTINUED)

In 2002, a capital reorganisation scheme was approved by the shareholders at an extraordinary general meeting on 11 July 2002 and was subsequently confirmed by the sanction of an order of the High Court of Hong Kong dated 6 August 2002. The details of the capital reorganisation scheme are as follows:

(a) the authorised share capital of the Company was reduced from $1,000,000,000, divided into 2,000,000,000 ordinary shares of $0.50 each, to $20,000,000 divided into 2,000,000,000 ordinary shares of $0.01 each. Such reduction was effected by cancelling paid up capital per share by $0.49 on each of the 1,650,658,676 ordinary shares in issue on 6 August 2002, being the date on which the court petition was heard, and by reducing the nominal value of all the issued and unissued ordinary shares of the Company from $0.50 to $0.01 per ordinary share; and

(b) upon such reduction of capital taking effect:

   (i) the authorised share capital of the Company was increased to its former amount of $1,000,000,000 by the creation of an additional 98,000,000,000 ordinary shares of $0.01 each; and

   (ii) a special capital reserve was created and credited with an amount equal to the credit arising from the said reduction of capital as detailed in (a) above, which amounted to $808,822,751. Such reserve shall not be treated as realised profit and shall, for as long as the Company shall remain a listed company, be treated as an undistributable reserve. However, the special capital reserve may be reduced by the aggregate of any increase in the issued capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves.

31 RESERVES

(a) The Group

	Share premium $'000	Capital redemption reserve $'000	Special reserve $'000	Exchange reserve $'000	Goodwill reserve $'000	Revaluation reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2002	1,189,721	478	—	790	(30,000)	—	(952,754)	208,235
Exchange differences	—	—	—	385	—	—	—	385
Reduction of share capital *(note 30)*	—	—	808,822	—	—	—	—	808,822
Impairment loss on goodwill	—	—	—	—	30,000	—	—	30,000
Loss for the year	—	—	—	—	—	—	(119,435)	(119,435)
At 31 December 2002	1,189,721	478	808,822	1,175	—	—	(1,072,189)	928,007
At 1 January 2003	1,189,721	478	808,822	1,175	—	—	(1,072,189)	928,007
Exchange differences	—	—	—	833	—	—	—	833
Revaluation surpluses	—	—	—	—	—	33	—	33
Loss for the year	—	—	—	—	—	—	(34,069)	(34,069)
At 31 December 2003	**1,189,721**	**478**	**808,822**	**2,008**	**—**	**33**	**(1,106,258)**	**894,804**

The accumulated losses of the Group include profit of $227,000 (2002: $328,000) retained by associates.

(b) The Company

	Share premium $'000	Special reserve $'000	Capital redemption reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2002	1,189,721	—	478	(952,164)	238,035
Reduction of share capital *(note 30)*	—	808,822	—	—	808,822
Loss for the year	—	—	—	(119,072)	(119,072)
At 31 December 2002	1,189,721	808,822	478	(1,071,236)	927,785
At 1 January 2003	1,189,721	808,822	478	(1,071,236)	927,785
Loss for the year	—	—	—	(35,238)	(35,238)
At 31 December 2003	**1,189,721**	**808,822**	**478**	**(1,106,474)**	**892,547**

32 ACQUISITION OF SUBSIDIARIES

On 12 October 2003, the Group acquired 60% interest in Kenmure Limited and its subsidiaries for $33,000,000, satisfied in cash.

	2003
	$'000
Net assets acquired	
Fixed assets	**10,280**
Interest in associates	**2,127**
Inventories	**41,000**
Trade and other receivables	**18,874**
Amounts due from associates	**1,113**
Tax recoverable	**331**
Cash and cash equivalents	**42,253**
Trade and other payables	**(67,516)**
Bank loans	**(2,948)**
Amount due to an associate	**(2,265)**
Minority interests	**(17,300)**
Net identifiable assets and liabilities	**25,949**
Goodwill arising on consolidation *(note 13)*	**7,051**
Total purchase price paid, satisfied in cash	**33,000**
An analysis of the net cash inflow in respect of the purchase of subsidiaries is as follows:	
Cash consideration	**(33,000)**
Cash and cash equivalents of the subsidiaries acquired	**42,253**
Net cash inflow in respect of the purchase of subsidiaries	**9,253**

33 COMMITMENTS

(a) Operating leases

(i) Operating lease commitments

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

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**23,672**	1,312	**1,986**	880
After 1 year but within 5 years	**25,946**	87	**609**	—
	49,618	1,399	**2,595**	880

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years, certain of which have renewal options at expiration when all terms are renegotiated. Certain leases contain a contingent rental element based on various percentages of tenant's sales receipts.

(ii) Future operating lease income

The Group's total future minimum sublease payments receivable under non-cancellable operating leases as at 31 December 2003 amounted to $5,339,000 (2002: $Nil).

(b) Acquisition of equity interests

During 2002, a wholly-owned subsidiary of the Company entered into an agreement with certain third parties, upon the terms and conditions set out therein, to form a club and leisure business management company in Shanghai ("the Shanghai Company"). During 2003, the subsidiary subscribed for 20% of the shares of the Shanghai Company for a consideration of US$1,600,000. As at 31 December 2003, the subsidiary had a commitment to pay the remaining balance of US$800,000 by 7 April 2005.

(c) Other commitments

As at 31 December 2003, the Company, acting on behalf of Hill Top Country Club Limited, was a party to a co-operative joint venture agreement with a PRC joint venture partner in respect of Shanghai Hilltop Country Club Ltd. ("SHCCL"). According to the terms of the co-operative joint venture agreement and supplementary agreement signed on 2 September 2002, the Company committed to pay the PRC joint venture partner any shortfall in the profit distributed by SHCCL to the PRC joint venture partner below the amounts of RMB1,650,000 and US$268,000 per annum from 2001 to 2008 and from 2009 to 2022 respectively. During the year, the operation of SHCCL was sub-contracted to the Shanghai Company in which the Group has a 20% interest. According to the sub-contracting agreement signed on 16 June 2003, the Shanghai Company has undertaken to pay any such amounts due to the PRC joint venture partner during the sub-contracting period from 1 July 2003 to 30 June 2016. As at 31 December 2003, the maximum amount payable by the Company to the PRC joint venture partner up to 27 December 2022 in excess of the amount provided for in these financial statements amounted to $36,966,000, of which $23,413,000 is expected to be absorbed by the Shanghai Company.

34 CONTINGENT LIABILITIES

At 31 December 2003, there were contingent liabilities in respect of the following:

(a) One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US$1,500,000 from that subsidiary in relation to rate changes applied by that subsidiary for services delivered by the content provider. The claimant also disputes traffic volumes generated in the past and claims to have been underpaid by at least US$2,736,125.

Management has studied the allegations raised and sought legal advice on the subsidiary's legal rights and liabilities. Upon advice, the subsidiary has sought to refute most of the allegations and has made a counterclaim of US$6,214,708 for the return of sums advanced on account to the content provider due to uncollectibles, discrepancies arising on reconciliation of traffic volumes and other related items.

Management considers that it is unlikely that any loss will arise and accordingly, no provision has been made in the financial statements.

(b) During the year ended 31 December 2003, the Company executed corporate guarantees as part of the security for general banking facilities granted to certain subsidiaries to the extent of US$6,110,000 (2002: US$6,110,000) and for rental payable by a subsidiary to the extent of $101,000 (2002: $264,000).

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year, the Company received interest income amounting to $42,000 (2002: $138,000) from an associate.

(b) On 28 May 2003, the Company renewed its tenancy agreement with a company controlled by a substantial shareholder of the Company. Rental expense payable under the expired and renewed agreements during the year ended 31 December 2003 amounted to $2,166,000 (2002: $2,843,000). The terms of the tenancy agreement are on an arm's length basis.

(c) During the year, the Group paid consultancy fees amounting to $312,000 (2002: $Nil) to a company in which the spouse of a director of one of the Group's subsidiaries has controlling interest.

(d) The Group entered into agreements with an associate for sub-lease of a shop unit and the provision of shop management services and received sub-leasing rental and management income amounting to $664,000 (2002: $Nil) and $420,000 (2002: $Nil) respectively.

36 POST BALANCE SHEET EVENT

Subsequent to 31 December 2003, one of the Group's subsidiaries repaid the bank loans of $46,680,000 (US$6,000,000) in full. Accordingly, pledges of the Company's fixed deposits given to secure such bank loans have been reduced by an equivalent amount.

37 COMPARATIVE FIGURES

During the current year, the directors have re-evaluated the investment objectives of an investment security, whose primary operations consisted of telecommunications operations and was classified under the telecommunications services segment in 2002. As the Group's investment objectives are of an investment holding nature, the directors consider it more appropriate to disclose the investment under the investment and treasury segment.

As a result, the investment security in the amount of $54,460,000 for the prior year has been reclassified from the telecommunications services segment to the investment and treasury segment in order to conform with the current year's presentation.