

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 39.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted the Hong Kong Financial Reporting Standard ("HKFRS") – the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" ("SSAP 12 Revised"), issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAP and Interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, land and buildings, and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiary is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions of subsidiaries prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions of subsidiaries, associates or jointly controlled entities after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition but which do not represent identifiable liabilities at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill not exceeding aggregate fair values of acquired identified non-monetary assets is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Trading of securities is recognised when the relevant transaction is executed.

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the lease terms.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a revaluation decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties except where the unexpired term, including the renewable period, of the relevant lease is twenty years or less.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation, amortisation and any identified impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the asset revaluation reserve except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of land and buildings is dealt with as an expense to the extent that it exceeds the balance, if any, held in asset revaluation reserve relating to a previous revaluation of that particular property. On the subsequent sale of land and buildings, the attributable revaluation increase not yet transferred to retained profits in prior years is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:–

Leasehold land	Over the remaining lease terms
Buildings	Over the shorter of the lease terms or 30-50 years
Computer and electronic equipment	20%
Furniture and fixtures	20% – 50%
Motor vehicles	20% – 50%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statements.

#### Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

#### Jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

#### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

#### Inventories

Inventories, representing trade merchandise, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Other non-current assets

Other non-current assets represents club debentures carried at cost less any identified impairment loss.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Derivatives used for trading and investment

Derivatives used in the Group's trading activities are recorded at fair value, and unrealised gains and losses are reflected in the income statement. The fair values of the trading positions generally are based on listed market prices. If listed market prices are not available or if the liquidation of the Group positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models which consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### The Group as lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

##### The Group as lessee

Rentals payable under operating leases are charged as expenses on a straight line basis over the term of the relevant lease.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Retirement benefits scheme

Payments to the Group's defined contribution scheme or Mandatory Provident Fund Scheme or the central pension scheme are charged as an expense as they fall due.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities, denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the exchange rates prevailing on the balance sheet date. Income and expense items denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

## 4. TURNOVER

	2003 HK\$'000	2002 HK\$'000
Sales of mobile phones	98,775	168,241
Proceeds from sales of listed trading investments	381,237	1,102,900
Dividend income from listed investments	6,662	10,493
Other communication products	1,034	11,218
	<b>487,708</b>	<b>1,292,852</b>

## 5. BUSINESS AND GEOGRAPHICAL INFORMATION

### Business segments

For management purposes, the Group is currently organised into two main operating divisions – mobile phone distribution, and securities trading and investments. Others mainly represent sales of other communication products and rental income earned during the year. These divisions are the basis on which the Group reports its primary segment information.



**5. BUSINESS AND GEOGRAPHICAL INFORMATION (Continued)****Business segments (Continued)**

Segment information about these businesses is presented below:–

*For the year ended 31 December 2003*

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>Revenue</i>				
External sales	98,775	387,899	1,034	487,708
Other operating income	–	7,275	3,096	10,371
	<b>98,775</b>	<b>395,174</b>	<b>4,130</b>	<b>498,079</b>
<i>Result</i>				
Segment result	<b>1,301</b>	<b>174,471</b>	<b>(3,037)</b>	<b>172,735</b>
Unallocated other operating income				9,617
Unallocated corporate expenses				(20,843)
Profit from operations				161,509
Finance costs				(545)
Gain on expiry of warrants				90,369
Gain on disposal of subsidiaries	41,109	–	–	41,109
Share of result of a jointly controlled entity	–	–	(28)	(28)
Profit before taxation				292,414
Tax charge				(336)
Profit for the year				<b>292,078</b>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL INFORMATION (Continued)

### Business segments (Continued)

For the year ended 31 December 2003 (Continued)

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>Balance sheet</i>				
<i>Assets</i>				
Segment assets	37,760	855,176	38,960	931,896
Unallocated corporate assets				191,560
Consolidated total assets				1,123,456
<i>Liabilities</i>				
Segment liabilities	2,740	3,167	1,174	7,081
Unallocated corporate liabilities				12,838
Consolidated total liabilities				19,919

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Unallocated segment HK\$'000	Consolidated HK\$'000
<i>Other information</i>					
Capital expenditure	233	-	-	44	277
Depreciation and amortisation	511	-	199	751	1,461
Impairment losses recognised in consolidated income statement	-	2,409	-	124	2,533
Other non-cash expenses	-	-	1,128	398	1,526

**5. BUSINESS AND GEOGRAPHICAL INFORMATION (Continued)****Business segments (Continued)***For the year ended 31 December 2002*

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
<i>Revenue</i>				
External sales	168,241	1,113,393	11,218	1,292,852
Other operating income	2,412	–	6,652	9,064
	170,653	1,113,393	17,870	1,301,916
<i>Result</i>				
Segment result	(21,015)	(537,490)	(4,925)	(563,430)
Unallocated other operating income				10,420
Unallocated corporate expenses				(29,345)
Loss from operations				(582,355)
Finance costs				(603)
Impairment loss recognised in respect of goodwill	–	(2,250)	–	(2,250)
Loss on disposal of an associate	–	(9,085)	–	(9,085)
Share of results of associates	–	(9,005)	–	(9,005)
Share of result of a jointly controlled entity	–	–	(119)	(119)
Loss before taxation				(603,417)
Tax credit				198
Loss before minority interests				(603,219)
Minority interests				305
Loss for the year				(602,914)

# Notes to the Financial Statements

For the year ended 31 December 2003

## 5. BUSINESS AND GEOGRAPHICAL INFORMATION (Continued)

### Business segments (Continued)

For the year ended 31 December 2002 (Continued)

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Consolidated HK\$'000	
<i>Balance sheet</i>					
<i>Assets</i>					
Segment assets	27,888	736,641	47,931	812,460	
Interest in a jointly controlled entity	–	–	1,926	1,926	
Unallocated corporate assets	–	–	–	96,387	
Consolidated total assets				910,773	
<i>Liabilities</i>					
Segment liabilities	39,039	45,830	19,165	104,034	
Amount due to a jointly controlled entity	–	–	1,200	1,200	
Unallocated corporate liabilities	–	–	–	6,773	
Consolidated total liabilities				112,007	
	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Others HK\$'000	Unallocated segment HK\$'000	Consolidated HK\$'000
<i>Other information</i>					
Capital expenditure	88	–	211	996	1,295
Depreciation and amortisation	2,287	–	1,339	423	4,049
Impairment losses recognised in consolidated income statement	3,711	88,879	2,334	517	95,441
Other non-cash expenses	13	279,975	438	689	281,115

**5. BUSINESS AND GEOGRAPHICAL INFORMATION (Continued)****Geographical segments**

The Group's operations are located in Hong Kong and Mainland China ("China").

The Group's distribution of mobile phones is carried out in Hong Kong and China. Securities trading and investment are carried out in Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market:

	Revenue by geographical market	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	495,795	1,229,841
China	2,284	72,075
	<b>498,079</b>	<b>1,301,916</b>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:–

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31.12.2003 HK\$'000	At 31.12.2002 HK\$'000	Year ended 31.12.2003 HK\$'000	Year ended 31.12.2002 HK\$'000
Hong Kong	1,098,756	879,698	277	731
China	24,700	31,075	–	564
	<b>1,123,456</b>	<b>910,773</b>	<b>277</b>	<b>1,295</b>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 6. NET GAIN/(LOSSES) ON INVESTMENTS

	2003 HK\$'000	2002 HK\$'000
Gain on realisation of other listed investments	–	8,091
Net realised loss on derivatives	(14,205)	(48,167)
Net unrealised gain/(loss) on trading investments	137,976	(200,017)
Net unrealised loss on derivatives	–	(79,958)
Impairment loss recognised in respect of other investments (Note a)	–	(86,629)
Impairment loss recognised in respect of trading investment (Note b)	(2,409)	–
Net realised gain on corporate bonds	–	2,446
	<b>121,362</b>	<b>(404,234)</b>

Notes:–

- (a) Pursuant to the offer made by Sun Hung Kai & Co. Limited ("SHK") to its shareholders to repurchase up to 325,600,000 shares of SHK at a price of HK\$1.3 per share of SHK to be paid by cash of HK\$0.3 and by debt securities of HK\$1.0 in November 2002, the Group undertook to tender at least 152,760,720 shares of SHK in November 2002 and subsequently realised 212,782,450 shares of SHK at a price of HK\$1.3 per share in February 2003. The directors of the Company (the "Director(s)") determined that the value of these 212,782,450 shares of SHK was impaired and the impairment loss was transferred from the asset revaluation reserve to consolidated income statement during the year ended 31 December 2002.
- (b) The listing of one of the trading securities was cancelled on 19 January 2004. The Directors are of the opinion that the value of the trading investment was fully impaired.

**7. OTHER OPERATING INCOME**

	2003 HK\$'000	2002 HK\$'000
Interest income from:–		
– Debt securities	7,275	–
– Banks	479	1,351
– Loan receivables	2,206	63
– Others	143	496
	<b>10,103</b>	<b>1,910</b>
Compensation from litigation (Note)	4,941	–
Rental income from properties under operating leases after outgoings of HK\$253,000 (2002: HK\$162,000)	3,096	6,308
Service income	–	2,412
Maintenance income	–	344
Write back of long outstanding payables	–	5,166
Others	1,848	2,575
	<b>19,988</b>	<b>18,715</b>

Note: Included a compensation of HK\$4,778,000 as settlement in respect of a litigation which was made against ex-employees for damages in relation to their improper behaviour.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 8. PROFIT/(LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit/(Loss) from operations has been arrived at after charging/(crediting):		
Auditors' remuneration	620	700
Cost of inventories recognised as expenses	90,182	173,628
Redundancy and severance payments	–	1,243
Revaluation decrease of investment properties	1,060	270
Revaluation decrease of leasehold land and buildings	68	48
Depreciation and amortisation of property, plant and equipment	1,461	4,049
Impairment loss recognised in respect of property, plant and equipment	–	6,562
Impairment loss recognised in respect of other non-current assets	124	–
Loss on disposal of property, plant and equipment	398	822
Staff costs, inclusive of directors' emoluments	12,478	19,080
Allowance for bad debts	–	13,180
Write back of:		
– provision for litigation costs	–	(7,459)
– allowance for bad debts	–	(10,000)

## 9. FINANCE COSTS

The amounts represent interest on bank and other borrowings wholly repayable within five years.



**10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS****Directors' emoluments**

The Directors' emoluments are analysed as follows:-

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fees:-		
Executive Directors	-	-
Non-executive Directors	-	63
Independent Non-executive Directors	<b>267</b>	200
	<b>267</b>	263
Other emoluments to Executive Directors:-		
Salaries and other benefits	<b>1,709</b>	848
Retirement benefits scheme contributions	<b>45</b>	36
<b>Total Directors' emoluments</b>	<b>2,021</b>	<b>1,147</b>

The emoluments of the Directors are within the following bands:-

	<b>2003</b>	2002
	<b>Number of</b>	Number of
	<b>Directors</b>	Directors
Nil to HK\$1,000,000	<b>6</b>	8

There was no compensation for loss of office paid to Directors or former Directors and no Director waived any emoluments for each of the two years ended 31 December 2003.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Continued)

### Highest paid individuals

During the year, the five highest paid individuals included two Directors (2002: Nil), details of which are set out above. The emoluments for the remaining three (2002: five) highest paid individuals of the Group are as follows:-

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,958	3,686
Retirement benefits scheme contributions	61	160
	<b>2,019</b>	<b>3,846</b>

The emoluments are within the following bands:-

	2003 Number of employees	2002 Number of employees
Nil to HK\$1,000,000	3	4
HK\$1,000,001 to HK\$1,500,000	-	1

## 11. GAIN ON DISPOSAL OF SUBSIDIARIES

In March 2003, Fulltime Profits Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries ("Fulltime Group"), which engaged in mobile phone distribution and the intelligent building system integration business in China (collectively the "China Operations") were disposed of to an independent third party at a nominal consideration of HK\$1. The disposal was completed on 29 March 2003, on which date the control of the China Operations was passed to the acquirer.

**11. GAIN ON DISPOSAL OF SUBSIDIARIES (Continued)**

The results of the China Operations for the period from 1 January 2003 to 29 March 2003, which have been included in the consolidated income statement, were as follows:–

	<b>1.1.2003 to 29.3.2003 HK\$'000</b>	<b>1.1.2002 to 31.12.2002 HK\$'000</b>
Turnover	<b>1,062</b>	68,115
Other operating income	–	3,456
Operating costs	<b>(2,034)</b>	(100,309)
Finance costs	–	(430)
Share of result of a jointly controlled entity	<b>(28)</b>	(119)
<b>Loss for the period/year</b>	<b>(1,000)</b>	<b>(29,287)</b>

During the year, the China Operations did not make a significant contribution to the net cash flows on the results of the Group.

During the year ended 31 December 2002, the China Operations used HK\$11 million from the Group's net operating cash flows, received HK\$0.5 million in respect of investing activities and paid HK\$27 million in respect of financing activities.

The carrying amounts of the assets and liabilities of the China Operations at the date of disposal are set out in note 30.

A gain of HK\$41,109,000 arose on the disposal of the China Operations, being the proceeds of disposal less the carrying amount of net liabilities of Fulltime Group at the date of disposal, attributable goodwill and translation reserve (see note 30). No tax charge or credit arose from the transaction.

**12. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF GOODWILL**

In the last year, the Directors had assessed the recoverable amount of the goodwill arising from the acquisition of additional interest in a subsidiary amounting to HK\$2,250,000. The Directors identified that the goodwill to be impaired since the subsidiary had sustained losses for several years and continued suffering losses from its operations. Accordingly, the entire amount had been charged to the consolidated income statement in last year.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 13. SHARE OF RESULTS OF ASSOCIATES AND LOSS ON DISPOSAL OF AN ASSOCIATE

The share of results of associates for the year ended 31 December 2002 mainly included the results of Millennium Group Limited ("MGL") up to 30 June 2002 in accordance with the Group's accounting policy. In August 2002, the Group realised the entire interest in MGL, for consideration of HK\$37,494,000 (net of expenses) at a loss of HK\$9,085,000.

## 14. TAX (CHARGE)/CREDIT

	2003 HK\$'000	2002 HK\$'000
Current tax:-		
Income tax in China	(104)	-
Underprovision in prior years		
Hong Kong	(3)	-
China	(229)	-
	(336)	-
Share of tax credit of associates	-	198
	(336)	198

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for both years.

In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at the balance sheet date.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

**14. TAX (CHARGE)/CREDIT (Continued)**

The (charge)/credit for the year ended 31 December 2003 and 31 December 2002 can be reconciled to the profit/(loss) per the income statement as follows:–

	2003 HK\$'000	2002 HK\$'000
Profit/(Loss) before taxation	292,414	(603,417)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(51,172)	96,547
Tax effect of expenses that are not deductible	(17,707)	(41,687)
Tax effect of income that are not taxable	32,647	21,700
Utilisation of tax losses previously not recognised	39,972	149
Tax effect of tax losses not recognised	(3,799)	(75,047)
Underprovision in respect of prior years	(232)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(49)	–
Others	4	(1,464)
Tax (charge)/credit for the year	(336)	198

**15. DIVIDENDS**

	2003 HK\$'000	2002 HK\$'000
Ordinary shares:–		
Interim dividend paid – HK\$0.01 per share (2002: Nil)	3,715	–
Final dividend proposed – HK\$0.04 per share (2002: Nil)	14,859	–

The final dividend of HK\$0.04 per share has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 16. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following data:-

	2003 HK\$'000	2002 HK\$'000
Earnings/(Loss) for the purpose of basic and diluted earnings/(loss) per share	292,078	(602,914)
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	371,464,499	371,458,494

Loss per share for 2002 has been adjusted for the share consolidation on 15 July 2003, details of which are set out in note 28.

The computation of diluted loss per share for 2002 does not assume the exercise of the Company's outstanding warrants because their exercise price was higher than the average market price for shares. The outstanding warrants expired and lapsed in June 2003, details of which are set out in note 28(e).

## 17. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
<b>VALUATION</b>	
At 1 January 2003	32,610
Revaluation decrease	(1,060)
At 31 December 2003	31,550

**17. INVESTMENT PROPERTIES (Continued)**

The Group's investment properties are analysed as follows:-

	2003 HK\$'000	2002 HK\$'000
Properties held under medium term leases:-		
– in Hong Kong	14,850	15,610
– in China	16,700	17,000
	<b>31,550</b>	<b>32,610</b>

The Group's investment properties were revalued at 31 December 2003 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on an open market value basis. The resulting revaluation decrease of HK\$1,060,000 (2002: HK\$270,000) has been charged to the consolidated income statement.

All the investment properties of the Group are rented out under operating leases.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Computer and electronic equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
<b>COST OR VALUATION</b>					
At 1 January 2003	10,935	11,567	7,959	1,796	32,257
Exchange adjustments	–	403	25	41	469
Additions	–	8	269	–	277
Disposals	–	(3,893)	(5,136)	(607)	(9,636)
Disposal of subsidiaries	–	(5,997)	(352)	(729)	(7,078)
Revaluation decrease	(310)	–	–	–	(310)
<b>At 31 December 2003</b>	<b>10,625</b>	<b>2,088</b>	<b>2,765</b>	<b>501</b>	<b>15,979</b>
Comprising:					
At cost	–	2,088	2,765	501	5,354
At valuation – 2003	10,625	–	–	–	10,625
	10,625	2,088	2,765	501	15,979
<b>DEPRECIATION AND AMORTISATION AND IMPAIRMENT LOSS</b>					
At 1 January 2003	–	9,539	6,917	1,607	18,063
Exchange adjustments	–	361	24	30	415
Provided for the year	242	662	412	145	1,461
Eliminated on disposals	–	(3,523)	(5,095)	(607)	(9,225)
Eliminated on disposal of subsidiaries	–	(5,816)	(336)	(674)	(6,826)
Eliminated on revaluation	(242)	–	–	–	(242)
<b>At 31 December 2003</b>	<b>–</b>	<b>1,223</b>	<b>1,922</b>	<b>501</b>	<b>3,646</b>
<b>NET BOOK VALUES</b>					
At 31 December 2003	10,625	865	843	–	12,333
At 31 December 2002	10,935	2,028	1,042	189	14,194



**18. PROPERTY, PLANT AND EQUIPMENT (Continued)**

The land and buildings of the Group are analysed as follows:–

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Properties situated in Hong Kong, held under medium term leases	4,345	4,505
Properties situated in China, held under:		
– long leases	2,800	2,800
– medium term leases	3,480	3,630
	<b>10,625</b>	<b>10,935</b>

All the land and buildings of the Group were revalued at 31 December 2003 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on an open market value basis. The resulting revaluation decrease arising on the revaluation of HK\$68,000 (2002: HK\$48,000) has been charged to the consolidated income statement.

Had all the land and buildings of the Group been carried at cost less accumulated depreciation and amortisation, the carrying values of these properties would have been stated at HK\$18,482,000 (2002: HK\$18,963,000).

**19. INTERESTS IN SUBSIDIARIES**

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	32,168	32,168
Amounts due from subsidiaries	3,887,417	4,132,179
	<b>3,919,585</b>	<b>4,164,347</b>
Less: Allowances on amounts due from subsidiaries	(1,822,548)	(1,887,081)
	<b>2,097,037</b>	<b>2,277,266</b>

Particulars of the principal subsidiaries as at 31 December 2003 are set out in note 39.

In the opinion of the Directors, the amounts due from subsidiaries will not be repaid within twelve months from the balance sheet date. Accordingly, they are classified as non-current.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	–	1,926

The interest in the jointly controlled entity was disposed of by the Group during the year. Details are set out in notes 11 and 30.

## 21. INVESTMENTS IN SECURITIES

### THE GROUP

	Trading investments		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities						
– listed in Hong Kong	425,249	333,179	112,045	295,991	537,294	629,170
– listed overseas	22,597	–	29,418	–	52,015	–
– unlisted	–	104,607	–	–	–	104,607
	<b>447,846</b>	<b>437,786</b>	<b>141,463</b>	<b>295,991</b>	<b>589,309</b>	<b>733,777</b>
Debt securities						
– unlisted (Note)	–	–	256,247	–	256,247	–
	<b>447,846</b>	<b>437,786</b>	<b>397,710</b>	<b>295,991</b>	<b>845,556</b>	<b>733,777</b>
Carrying amount analysed for reporting purposes as						
– Non-current	–	–	388,115	284,306	388,115	284,306
– Current	447,846	437,786	9,595	11,685	457,441	449,471
	<b>447,846</b>	<b>437,786</b>	<b>397,710</b>	<b>295,991</b>	<b>845,556</b>	<b>733,777</b>
Market value of listed securities	447,846	333,179	141,463	295,991	589,309	629,170

**21. INVESTMENTS IN SECURITIES (Continued)**

Note: The debt securities represent the loan notes issued by Sun Hung Kai & Co. Limited ("SHK") and Allied Group Limited ("AG") which formed part of the consideration for the sale of SHK's and AG's shares by the Group during the year. The loan notes bear interest at 4% and 2.25% per annum and are redeemable on or before 7 March 2008 and 15 August 2008, respectively.

As at 31 December 2003, particulars of the Group's investments in the equity securities which exceed 10% of the assets of the Group disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of incorporation	Class of shares	Percentage of issued share capital held by the Group
Tian An China Investments Company Limited	Hong Kong	Ordinary	10.9%
Allied Group Limited	Hong Kong	Ordinary	7.9%

**22. INVENTORIES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Inventories held for resale – finished goods	5,139	10,315

At 31 December 2003, inventories of HK\$2,049,000 (2002: HK\$782,000) were carried at net realisable values.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 23. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30-90 days to its trade debtors.

An aged analysis of trade debtors is as follows:-

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	12,471	10,454
91 – 180 days	7	3,352
	<b>12,478</b>	<b>13,806</b>
Other debtors, deposits and prepayments	28,457	6,849
Net premium paid for derivatives	–	2,448
	<b>40,935</b>	<b>23,103</b>

## 24. LOAN RECEIVABLES

The loan receivables are unsecured, bear interests at prime rate plus 5% to 15% per annum and are repayable within one year.

## 25. CREDITORS AND ACCRUED CHARGES

An aged analysis of trade creditors is as follows:-

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	1,723	4,057
91 – 180 days	–	377
181 – 360 days	–	117
Over 360 days	–	8,541
	<b>1,723</b>	<b>13,092</b>
Other creditors and accrued charges	6,667	46,558
	<b>8,390</b>	<b>59,650</b>

**26. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY**

The amount due to a jointly controlled entity of the Group was unsecured, interest free and the jointly controlled entity was disposed of during the year.

**27. AMOUNTS DUE TO SUBSIDIARIES**

The amounts due to subsidiaries of the Company are unsecured, interest free and have no fixed terms of repayment. The subsidiaries confirmed that the repayment of the amounts will not be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

**28. SHARE CAPITAL**

	Number of shares		Value	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:-				
At beginning of the year	30,000,000,000	30,000,000,000	300,000	300,000
Capital Reduction (as defined in Note a)	(28,800,000,000)	-	(288,000)	-
Increase during the year (Note d)	28,800,000,000	-	288,000	-
At end of the year	30,000,000,000	30,000,000,000	300,000	300,000
Issued and fully paid:-				
At beginning of the year	9,286,462,340	9,286,462,340	92,865	92,865
Warrants exercised (Note e)	256,507	-	2	-
Capital Reorganisation	(8,915,250,094)	-	(89,152)	-
At end of the year	371,468,753	9,286,462,340	3,715	92,865

## 28. SHARE CAPITAL (Continued)

Notes:–

Pursuant to resolutions proposed by the Directors and passed at a special general meeting of the Company held on 14 July 2003 (the “SGM”), the Company carried out a capital reorganisation in the following aspects:–

- (a) (i) the issued share capital of the Company was reduced by cancelling paid-up capital of HK\$0.0096 on each share of nominal value of HK\$0.01 in the issued share capital of the Company as at the date of passing of this resolution so that each share was treated as one fully paid-up share of nominal value of HK\$0.0004 in the issued share capital of the Company; and
- (ii) the value of each of the authorised but unissued shares was reduced from HK\$0.01 to HK\$0.0004 each so that the authorised share capital of the Company was reduced from HK\$300,000,000 to HK\$12,000,000 (the “Capital Reduction”);
- (b) an amount of HK\$375,995,500 standing to the credit in the share premium account of the Company as at 31 December 2002 was reduced (the “Share Premium Reduction”) and together with the credit amount of HK\$89,152,500 arising from the Capital Reduction were applied to eliminate or reduce the deficit of the Company with accumulated balance of HK\$465,890,000 as at 31 December 2002 in accordance with the Bye-laws of the Company and the applicable laws of Bermuda;
- (c) every 25 reduced shares of HK\$0.0004 each was consolidated (the “Share Consolidation”) into one new share of nominal value of HK\$0.01 each (the “New Shares”); and
- (d) the authorised share capital of the Company was increased from HK\$12,000,000 to HK\$300,000,000 by the creation of an additional 28,800,000,000 unissued New Shares in the capital of the Company following completion of the Capital Reduction and Share Consolidation (altogether the “Capital Reorganisation”).

The Capital Reorganisation became effective on 15 July 2003.

(e) Warrants

During the year ended 31 December 2000, 1,856,688,098 warrants in the value of HK\$557,006,000 were issued at HK\$0.05 on the basis of one warrant for every five ordinary shares held on 15 May 2000. Each warrant entitled the holder to subscribe in cash at a price of HK\$0.30 each, subject to adjustment, for one ordinary share in the Company, at any time from the date of issue up to 6 June 2003 (both days inclusive).

During the year, 256,507 warrants in the value of HK\$77,000 were exercised to subscribe for 256,507 ordinary shares of the Company at an exercise price of HK\$0.30 per share. The remaining 1,856,409,741 warrants in the value of HK\$556,923,000 expired and lapsed on 6 June 2003. Accordingly, the warrant reserve of HK\$90,369,000 was released to the income statement.

**29. RESERVES**

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Retained profit/ (deficit) HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1 January 2002	1,135,685	32,883	1,922	90,381	(30,532)	1,230,339
Loss for the year	-	-	-	-	(435,358)	(435,358)
At 31 December 2002	1,135,685	32,883	1,922	90,381	(465,890)	794,981
Premium arose on exercise of warrants	87	-	-	(12)	-	75
Gain on expiry of warrants recognised in the income statement	-	-	-	(90,369)	-	(90,369)
Reduction of deficit by capital reorganisation and share premium reduction	(375,996)	-	-	-	465,148	89,152
Profit for the year	-	-	-	-	84,026	84,026
Interim dividend paid	-	-	-	-	(3,715)	(3,715)
At 31 December 2003	759,776	32,883	1,922	-	79,569	874,150

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued at the date on which the group reorganisation became effective, in exchange for the shares of the subsidiaries, and the underlying net assets of the subsidiaries acquired, less distributions subsequently made by the Company.

In addition to retained profits of the Company, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders at 31 December 2003 amounted to HK\$112,452,000 (2002: Nil).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 30. DISPOSAL OF SUBSIDIARIES

As explained in note 11, on 29 March 2003, the Group disposed of its China Operations at a consideration of HK\$1. The net liabilities at the date of disposal were as follows:–

	29.3.2003 HK\$'000
NET LIABILITIES DISPOSED OF:	
Property, plant and equipment	252
Interest in a jointly controlled entity	2,001
Other non-current assets	95
Inventories	1,673
Debtors, deposits and prepayments	5,829
Taxation recoverable	8
Bank balances and cash	800
Creditors and accrued charges	(51,679)
Amount due to a jointly controlled entity	(1,200)
	<u>(42,221)</u>
Attributable goodwill	1,237
Translation reserve realised	(125)
	<u>(41,109)</u>
Gain on disposal	41,109
	<u>–</u>
Total cash consideration	–
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(800)
	<u>(800)</u>



## 31. DEFERRED TAXATION

At 31 December 2003, the Group and the Company has estimated unused tax losses of HK\$1,964 million and HK\$74 million (2002: HK\$2,166 million and HK\$67 million), respectively, for offset against future profits. No deferred tax asset has been recognised in respect of the remaining unrecognised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Group has deductible temporary differences of HK\$32 million (2002: HK\$32 million). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 32. CONTINGENT LIABILITIES

(a) The Company has given guarantees to banks in respect of credit facilities granted to a subsidiary. As at 31 December 2003, facilities of HK\$4,846,000 (2002: Nil) were utilised by the subsidiary.

In addition, the Company has also provided guarantees to several securities houses in respect of the facilities granted to subsidiaries. As at 31 December 2003 and 2002, no facilities were utilised by the subsidiaries.

(b) In respect of the disposal of a subsidiary in prior years, the Group has given an indemnity to the purchaser against all liabilities, losses, costs and expenses suffered and/or incurred by the purchaser in relation to or arising out of the assignment of certain of the subsidiary's business contracts.

(c) In 1997, the Company had given a counter-indemnity to a former substantial shareholder and the ex-chairman of Pacific Century Cyberworks Limited (formerly Tricom Holdings Limited ("Tricom")), and Chambord Investment Inc. in respect of certain indemnities given to Tricom at the time of and to facilitate the listing of Tricom's shares on the Stock Exchange. These indemnities related to the use of the Tricom tradename, the infringement of the permitted use of properties, the guarantees granted to Tricom to secure banking facilities and tax liabilities.

In respect of (b) and (c) above, the Directors were not able to estimate the financial effect of the indemnities and warranty given.

### 33. LITIGATION

- (a) In November 1998, a writ was issued against the Company's subsidiaries, Hongkong Digital Television Limited ("Digital TV", formerly Star Interactive Television Limited) and Star Telecom Services Limited ("STSL", formerly Hong Kong Star Internet Limited) by nCube Corporation ("nCube"), claiming the sum of approximately US\$1,980,000 (equivalent to approximately HK\$15,305,000) plus interest in relation to the alleged purchase of two MediaCube 3000 systems by Digital TV from nCube. The claim of nCube against STSL was on the basis of a chop of STSL on the contract between Digital TV and nCube. STSL had taken legal advice and had been advised that it was very unlikely that STSL would be held liable to the claim of nCube. Digital TV was also opposing the claim of nCube and had taken legal advice.

As advised by its lawyers, Digital TV had reasonable grounds in defending the claim and, accordingly, had not made any provision in the financial statements in connection with the claim. Digital TV filed a defence in this section on 14 December 1998 and nCube had failed to take further action since that date. There was no progress during the year in respect of the litigation.

- (b) Stellar One Corporation ("Stellar One") served a statutory demand under Section 178 of the Hong Kong Companies Ordinance for the sum of approximately US\$1,152,000 (equivalent to approximately HK\$8,983,000) upon Digital TV in November 1998. Stellar One filed a winding up petition against Digital TV in December 1998 which was vigorously opposed by Digital TV. Digital TV applied for an order for security for the costs against Stellar One. On 4 May 1999, the Court ordered Stellar One to pay HK\$200,000 to the court as security for the costs of Digital TV on or before 7 May 1999. Stellar One failed to pay that amount to the court.

The petition was dismissed in November 1999 and Stellar One was to pay Digital TV its cost of the petition, which amounted to HK\$254,000. Stellar One had indicated that it would proceed to arbitration in Honolulu to recover the alleged amount.

Digital TV took legal advice and was advised that the arbitration proceedings had not commenced as of the date of approval of these financial statements. As advised by its lawyers, Digital TV had reasonable grounds in defending the claims and, accordingly, had not made any provision in the financial statements in connection with the claims.

Save and except for the matters specified above, neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

**34. PLEDGE OF ASSETS**

At the balance sheet date, the following assets of the Group were pledged to banks to secure short term banking facilities:–

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Investment properties	11,350	–
Marketable securities	54,583	164,554
Bank balances and cash	26,988	7,567
	<b>92,921</b>	<b>172,121</b>

**35. OPERATING LEASE ARRANGEMENTS**

*The Group as lessee:–*

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases in respect of premises	4,311	10,515

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under operating leases in respect of rented premises which fall due as follows:–

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,075	3,945
In the second to fifth year inclusive	428	1,173
	<b>1,503</b>	<b>5,118</b>

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouses. Leases are negotiated for an average term of two to five years and rentals are fixed for an average term of two years.

For the year ended 31 December 2003

## 35. OPERATING LEASE ARRANGEMENTS (Continued)

*The Group as lessor:–*

Property rental income earned during the year was HK\$3,349,000 (2002: HK\$6,470,000). The investment properties are expected to generate rental yields of 6.3% (2002: 5.7%). The properties held have committed tenants for an average of two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:–

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	2,272	4,033
In the second to fifth year inclusive	1,895	1,185
	<b>4,167</b>	<b>5,218</b>

At 31 December 2003, the Company had no commitments under operating leases (2002: Nil).

## 36. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustee.

The retirement benefits scheme contributions charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group or will be refunded to the Company upon request.

As at 31 December 2003, there was forfeited contributions of HK\$5,000 (2002: HK\$17,000), which arose upon employees leaving the scheme and which were available to reduce the contributions payable by the Group in future years.

**36. RETIREMENT BENEFITS SCHEMES (Continued)**

In addition to the defined contribution retirement benefits scheme, the Group is required to contribute to Mandatory Provident Fund and central pension scheme for certain employees in Hong Kong and China, respectively, based on applicable rates of monthly salary in accordance with the relevant regulations.

During the year, the retirement benefits scheme contributions net of forfeited contributions of HK\$71,000 (2002: HK\$43,000), amounting to HK\$446,000 (2002: HK\$136,000).

**37. RELATED PARTY TRANSACTIONS**

During the year ended 31 December 2002, the Company reimbursed expenses of HK\$4,000,000 to China Sci-Tech Holdings Limited ("CST"), a former substantial shareholder of the Company. The reimbursement included (i) salaries of two former Directors, both of them are also directors of CST, (ii) other staff costs, and (iii) daily operating expenses. The reimbursement was based on the actual costs incurred by CST.

**38. POST BALANCE SHEET EVENT**

On 19 February 2004, an indirect wholly-owned subsidiary of the Company disposed of 728,000,000 shares of Tian An China Investments Company Limited at HK\$0.3 each.

**39. PARTICULARS OF PRINCIPAL SUBSIDIARIES**

Particulars of the principal subsidiaries as at 31 December 2003 are as follows:–

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Directly held</b>				
Besford International Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Classic Fortune Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding

# Notes to the Financial Statements

For the year ended 31 December 2003

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Directly held (Continued)</b>				
Yuenwell Holdings Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Star Paging (BVI) Limited	The British Virgin Islands	Ordinary US\$400	100%	Investment holding
<b>Indirectly held</b>				
China Online Nominees Limited	Hong Kong	Ordinary HK\$200	100%	Investment holding and provision of nominee services
China Online Secretaries Limited	Hong Kong	Ordinary HK\$2	100%	Provision of secretarial services
Dualiane Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Focus Clear Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading in Hong Kong
Forepower Limited	The British Virgin Islands	Ordinary US\$1	100%	Property investment in Hong Kong
Genwo Limited	Hong Kong	Ordinary HK\$200,000	100%	Property holding
Gold Chopsticks Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding

**39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)**

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held (Continued)</b>				
Grandistar Company Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Honest Opportunity Limited	The British Virgin Islands	Ordinary US\$1	100%	Securities trading in Hong Kong and overseas
Join Capital Limited	Hong Kong	Ordinary HK\$2	100%	Money lending
Kintic Limited	Hong Kong	Ordinary HK\$2	100%	Property investment
Konnick Limited	Hong Kong	Ordinary HK\$2	100%	Property holding
Pro Leader Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Rich Investments Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Sparkling Summer Limited	The British Virgin Islands	Ordinary US\$6,500,000	100%	Securities trading in Hong Kong and overseas
Star Telecom (China Investment) Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding

# Notes to the Financial Statements

For the year ended 31 December 2003

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held (Continued)</b>				
Star Telecom Holding Limited	Hong Kong	Ordinary HK\$200 Deferred# HK\$4,000,000	100%	Investment holding
Star Telecom Limited	Hong Kong	Ordinary HK\$3,000,000	100%	Telecom and IT products and services
Star Telecom Properties Limited	Hong Kong	Ordinary HK\$200	100%	Investment and property holding
Taskwell Limited	The British Virgin Islands	Ordinary US\$1	100%	Investment holding
Tricom Tianchi Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Vinka Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Widerich Limited	Hong Kong	Ordinary HK\$2	100%	Property investment
星電電子技術發展 (深圳)有限公司*	China	Registered HK\$1,000,000	100%	Research and development for computer software and relevant technical consultancy services



## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

# The deferred shares, which are not held by the Group, practically carry no rights to any dividend or to receive notice of or to attend or vote at any general meeting of the company or to any distribution in winding up.

\* Wholly foreign-owned enterprise

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

All subsidiaries operate principally in their places of incorporation unless specified otherwise under "Principal activities".

None of the subsidiaries had any debts securities subsisting at 31 December 2003 or at any time during the year.