

Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries comprise the provision of Internet products and services, the provision of telecommunication products and services and investment holding.

As at 31 December 2003, the directors considered that the ultimate holding company of the Company is Sky Concord Development Limited, a company incorporated in the British Virgin Islands ("BVI").

2. IMPACT OF REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") is effective for the first time for the current year's financial statements:

– SSAP 12 (Revised) Income Taxes

SSAP 12 (Revised) prescribes the accounting treatment and disclosure for income taxes. The principal impact of the revision to this SSAP is that deferred taxation liability must now be provided in full and that the relationship between tax expenses or income and accounting profit must be disclosed in the format of a numerical reconciliation.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They are prepared under the historical cost convention, except for the periodic remeasurement of investments in securities and annual revaluation of investment property, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary nor a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset and amortized on the straight-line basis over its estimated useful life of three years. In the case of associates, any unamortized goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortized.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognized impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalized as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Computer equipment and software	50%
Furniture and fixtures	20%
Motor vehicles and vessels	25%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential with rental income being negotiated at arm's length.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Investment properties are stated in the balance sheet at their open market value on the basis of period end valuation carried out annually by persons holding a recognised professional qualification in valuing properties and having recent post-qualification experience in valuing properties in the location and in the category of the properties concerned; and at least every three years by an external valuer with similar qualifications. Investment properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Changes in the value of investment property is treated as movements in the investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged. Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investment in securities

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are classified as investment securities and stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the investment securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged are credited to the profit and loss account to the extent of the amount previously charged.

Other investments are listed equity securities and are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the periods in which they arise.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, and also should be recognised for the carry forward of unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of telecommunication services, when the relevant services are provided;
- (c) from operating lease rental income is recognised on a straight-line basis over the period of lease.
- (d) interest income, on a time proportion basis, taking into account the principal outstanding and effective interest rate applicable.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currencies translation

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies translation (continued)

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. Exchange differences arising in these cases are included in the exchange fluctuation reserve.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet classification, cash and cash equivalents comprise cash on hand and at banks, including short term deposits, which are not restricted as to use.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(a) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(b) Share option scheme

The Company operates a share option scheme for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheets until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by business segment; and
- (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Online operations segment refers to the provision of internet services. This segment includes the results, assets and liabilities of two companies which had been acquired in 2001 and become dormant since 2002;
- (b) Offline operations segment refers to the provision of telecommunication services and products. This segment had been established in last year and commenced operations in September 2001; and
- (c) Investment holding segment refers to the investment in securities.

In determining the Group's geographical segments, revenue and results are attributable to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

	Online operations		Offline operations		Investment holding		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>-</u>	<u>-</u>	<u>666</u>	<u>16,649</u>	<u>6</u>	<u>-</u>	<u>672</u>	<u>16,649</u>
Segment results	<u>(8,993)</u>	<u>(4,133)</u>	<u>(28,172)</u>	<u>(11,934)</u>	<u>(60,865)</u>	<u>(64,955)</u>	<u>(98,030)</u>	<u>(81,022)</u>
Interest and unallocated gains							30	98
Unallocated expenses							<u>(1,423)</u>	<u>(7,110)</u>
Loss from operating activities							<u>(99,423)</u>	<u>(88,034)</u>
Finance costs:								
Segment finance costs	-	-	(8)	-	(1,346)	(1,299)	<u>(1,354)</u>	<u>(1,299)</u>
Unallocated amounts							<u>-</u>	<u>-</u>
							<u>(1,354)</u>	<u>(1,299)</u>
Share of profits less losses of associates	-	-	-	-	-	-	<u>-</u>	<u>-</u>
Loss before tax							<u>(100,777)</u>	<u>(89,333)</u>
Tax							<u>(8)</u>	<u>-</u>
Loss before minority interests							<u>(100,785)</u>	<u>(89,333)</u>
Minority interests							<u>-</u>	<u>-</u>
Net loss attributable to shareholders							<u>(100,785)</u>	<u>(89,333)</u>

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Online operations		Offline operations		Investment holding		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	-	9,405	896	29,054	13,382	65,260	14,278	103,719
Interest in associates	-	-	-	-	3	3	3	3
Bank balances included in segment assets	-	-	7	79	190	2,185	197	2,264
Unallocated assets							1,563	3,452
TOTAL ASSETS							16,041	109,438
Segment liabilities	(18)	(10)	(3,192)	(3,530)	(8,840)	(16,127)	(12,050)	(19,667)
Unallocated liabilities							(31)	(227)
TOTAL LIABILITIES							(12,081)	(19,894)
Other segment information:								
Impairment losses of goodwill	3,532	-	15,000	-	20,020	-	38,552	-
Depreciation and amortization	5,443	5,443	12,000	9,360	22,456	24,934	39,899	39,737
Unallocated depreciation and amortization							-	457
Capital expenditure	-	-	-	36,117	1,180	71,547	1,180	107,664

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4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>672</u>	<u>3,099</u>	<u>–</u>	<u>13,550</u>	<u>672</u>	<u>16,649</u>
Segment results*	<u>(99,384)</u>	<u>(56,499)</u>	<u>–</u>	<u>(25,822)</u>	<u>(99,384)</u>	<u>(82,321)</u>

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:						
Segment assets	<u>16,041</u>	<u>65,480</u>	<u>–</u>	<u>43,958</u>	<u>16,041</u>	<u>109,438</u>
Capital expenditure	<u>1,180</u>	<u>46,664</u>	<u>–</u>	<u>61,000</u>	<u>1,180</u>	<u>107,664</u>

* Disclose pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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5. TURNOVER AND INCOME

Turnover represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's turnover and other income is as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of telecommunication products	–	13,550
Rendering of telecommunication services	666	3,099
Operating lease rental income	6	–
	<u>672</u>	<u>16,649</u>
Other income/gains		
Interest income	30	98
Gain on disposal of subsidiaries	–	4,890
Write back of accounts payable	329	3,456
Others	378	589
	<u>737</u>	<u>9,033</u>
Total income	<u><u>1,409</u></u>	<u><u>25,682</u></u>

Notes to Financial Statements

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6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging / (crediting):

		2003	2002
	Notes	HK\$'000	HK\$'000
Cost of inventories sold and services provided	(i)	516	15,789
Depreciation		117	3,670
Deposits written off		93	–
Amortization of goodwill		39,782	36,524
Impairment of goodwill		38,552	–
Loss on disposal of fixed assets		513	4,396
Loss/(gain) on disposal of subsidiaries		1,546	(4,890)
Unrealized holding loss on investment in securities		526	3,780
Loss on disposal of trading securities		232	23,323
Investment securities written off		200	–
Compensation to loss in trading securities	(ii)	809	–
Minimum lease payments under operating lease in respect of land and buildings		604	1,100
equipment		2	–
Bad debts written off		6,074	–
Provision for doubtful debts		–	61
Preliminary expenses		–	33
Auditors' remuneration		320	300
Staff costs, including directors' emoluments:			
Wages and salaries		3,997	8,854
Pension contributions	(iii)	101	195
		<u>4,098</u>	<u>9,049</u>
Exchange losses, net		<u>–</u>	<u>26</u>

Notes to Financial Statements

31 December 2003

6. LOSS FROM OPERATING ACTIVITIES *(continued)*

The deposits written off, the amortization of goodwill, the impairment of goodwill, the loss on disposal of fixed assets, the unrealized holding loss on investments in securities, the loss on disposal of trading securities, the investment securities written off, the compensation for loss in trading securities and the bad debts written off are included in "Other operating expenses" on the face of the consolidated profit and loss account.

Notes:

- (i) The cost of inventories sold and services provided for the years ended 31 December 2003 and 31 December 2002 had not included any depreciation amount.
- (ii) The compensation relates to a conditional disposal of some listed securities to a third party by a subsidiary of the Company.
- (iii) At 31 December 2003 and 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

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7. DIRECTORS' REMUNERATION

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Executive directors:		
Fees	–	–
Other emoluments:		
Salaries, commissions, allowances and benefit in kind	1,921	3,111
Discretionary bonuses	60	–
Pension scheme contributions	22	41
	<u>2,003</u>	<u>3,152</u>
Independent non-executive directors:		
Fees	140	100
Other emoluments	–	–
	<u>140</u>	<u>100</u>

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7. DIRECTORS' REMUNERATION (*continued*)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	5	7
HK\$1,000,001 to HK\$1,500,000	—	1
	<u>5</u>	<u>8</u>

There was no arrangement under which a director has waived or agreed to waive any emoluments during the current and prior years.

Save as disclosed above, during the current and prior years, no other emoluments were paid by the Group to any of the directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

During the year, no share options were granted to directors in respect of their services rendered to the Group. At 31 December 2003, the number of unexecuted share options granted to the directors was 576,000. The detail movements of which during the year are set out under the heading "Share option scheme" in the Report of the Directors.

In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no estimated value of such options has been charged to the profit and loss account as at the date of the grant.

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	454	803
Pension scheme contributions	18	24
	<u>472</u>	<u>827</u>

The number of employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

Save as disclosed above, during the current and prior years, no other emoluments were paid by the Group to any of the non-director, highest paid employees abovementioned as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

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9. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest expenses on:		
Convertible bonds	109	–
Finance leases	868	1,005
Other borrowings	377	294
	<u>1,354</u>	<u>1,299</u>

10. TAXATION

No Hong Kong profits tax has been provided for the year in the financial statements as the Group has no assessable profits for the year. Under provision of Hong Kong profits tax in prior year has been provided at the rate of 16%.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax		
– Under provision in prior year	<u>8</u>	<u>–</u>

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10. TAXATION (continued)

The taxation on the Group's loss before taxation differing from the theoretical amount that would arise using the Hong Kong taxation rate is as follows:

	2003 HK\$'000	2002 HK\$'000
Accounting loss	<u>(100,777)</u>	<u>(89,333)</u>
Tax at the domestic rate of 17.5% (2002: 16%)	(17,640)	(14,293)
Expenses not deductible for taxation purpose	14,033	12,664
Unrecognized tax losses	3,607	1,637
Under provision in prior year	8	–
Under provision recognized in next year	<u>–</u>	<u>(8)</u>
Taxation charge	<u><u>8</u></u>	<u><u>–</u></u>

Taxation in the balance sheet represents under provision for taxation in prior years.

At the balance sheet date and for the year then ended, there was no material unprovided deferred tax liability. Deferred tax asset arising from the tax losses has not been recognized as it is uncertain that future taxable profits will be available against these tax losses.

The principal components of the Group's deferred tax assets not recognized at the balance sheet date and for the year then ended are as follows:

	Current year		At the balance sheet date	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax losses	<u>3,607</u>	<u>1,637</u>	<u>5,372</u>	<u>1,765</u>

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11. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss (2002: profit) attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was (HK\$27,283,000) (2002: HK\$698,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$100,785,000 (2002: HK\$89,333,000), and the weighted average of 1,119,035,981 (2002:423,123,981) ordinary shares in issue during the year, as adjusted to reflect the rights issue effected during the year.

Diluted loss per share for the years ended 31 December 2003 and 2002 have not been disclosed as the share options, bonus warrants, and the convertible bonds and notes outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

Notes to Financial Statements

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13. FIXED ASSETS

Group

	Investment property HK\$'000	Leasehold improve- ments HK\$'000	Computer equipment and software HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2003	–	329	21,848	334	553	23,064
Additions	943	–	–	–	280	1,223
Disposals	–	(329)	(721)	(85)	(553)	(1,688)
At 31 December 2003	943	–	21,127	249	280	22,599
Accumulated depreciation:						
At 1 January 2003	–	329	21,545	147	143	22,164
Charge for the year	–	–	–	47	70	117
Disposals	–	(329)	(418)	(17)	(143)	(907)
At 31 December 2003	–	–	21,127	177	70	21,374
Net book value:						
At 31 December 2003	943	–	–	72	210	1,225
At 31 December 2002	–	–	303	187	410	900

The Group's investment property is leased out under operating leases.

The Group's investment property was revalued at its open market value at 31 December 2003 by Castores Magi (Hong Kong) Limited, Registered Professional Surveyors on an open market value basis. This investment property was acquired through the acquisition of a subsidiary by the Group during the year.

The Group's investment property is situated in Hong Kong under medium lease term.

At 31 December 2003 and 2002, no Group's fixed assets were held on finance leases.

Notes to Financial Statements

31 December 2003

14. GOODWILL

The amounts of the Group's goodwill capitalized as an asset and recognized in the consolidated balance sheet, arising from the acquisition and disposal of subsidiaries, are as follows:

	HK\$'000
Cost:	
At 1 January 2003	126,120
Addition during the year	24
Disposal	<u>(4,000)</u>
At 31 December 2003	<u>122,144</u>
Accumulated amortization:	
At 1 January 2003	38,565
Amortization during the year	39,782
Impairment	38,552
Disposal	<u>(2,797)</u>
At 31 December 2003	<u>114,102</u>
Net book value:	
At 31 December 2003	<u>8,042</u>
At 31 December 2002	<u>87,555</u>

During the year, the Group acquired a subsidiary of which the principal activity is property investment and disposed a number of subsidiaries by writing off the investments in subsidiaries. Further details of the acquisitions and disposals are set out in notes 28(b) and 28(c) to the financial statements.

Notes to Financial Statements

31 December 2003

15. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	3	3
Goodwill on acquisition	—	15,303
	<u>3</u>	<u>15,306</u>
Less: Provision for impairment	—	(15,303)
	<u>3</u>	<u>3</u>

During the year, the Group wrote off the investment in Internet Marketing & Services Limited which holds 100% interest in Marketing Online Limited. Impairment loss in the investment had already been recognized in prior years and hence there was no profit and loss effect on the financial statements of the Group in the year in respect of the write off.

The Group's share of the post-acquisition results of the associate has not equity accounted for the Group because the amounts are not significant.

Particulars of the associate as at 31 December 2003 disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance are as follows:

Name	Place of incorporation and operations	Issued share capital	Percentage of equity attributable to the Group	Principal activities
Seven Perfect Investment Co., Ltd*	BVI	US\$1,000	35%	Investment holding

* Not audited by Albert Lam & Co., CPA.

Notes to Financial Statements

31 December 2003

16. INVESTMENTS IN SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Investment securities:		
Unlisted in Hong Kong, at cost	–	200
Other investments:		
Listed in Hong Kong, at market value	<u>2,685</u>	<u>1,134</u>
At 31 December	<u><u>2,685</u></u>	<u><u>1,334</u></u>
Carrying amount analyzed for reporting purposes as:		
Non-current	–	200
Current	<u>2,685</u>	<u>1,134</u>
	<u><u>2,685</u></u>	<u><u>1,334</u></u>

Subsequent to the balance sheet date, the Group disposed of certain listed investments and received cash proceeds of approximately HK\$160,000 (2002: HK\$48,000). The market values of the remaining listed investments as at the date of approval of these financial statements are approximately HK\$2,400,000 (2002: HK\$495,000).

Notes to Financial Statements

31 December 2003

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	3	3
Amounts due from subsidiaries	461,885	470,818
Amounts due to subsidiaries	(4,510)	–
	<u>457,378</u>	<u>470,821</u>
Provision against amounts due from subsidiaries	(300,820)	(300,821)
	<u>156,558</u>	<u>170,000</u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out on pages 71 to 72 in this annual report.

Notes to Financial Statements

31 December 2003

18. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 60 days to its trade customers.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	1	168
31-60 days	–	182
61-90 days	–	159
Over 90 days	–	166
	<u>1</u>	<u>675</u>

19. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	260	2,397	172	1,739
Time deposits	–	598	–	17
	<u>260</u>	<u>2,995</u>	<u>172</u>	<u>1,756</u>
Less: Pledged time deposits	–	(581)	–	–
Cash and cash equivalents	<u>260</u>	<u>2,414</u>	<u>172</u>	<u>1,756</u>

Notes to Financial Statements

31 December 2003

20. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	–	182
31-60 days	–	147
61-90 days	–	99
Over 90 days	652	270
	<u>652</u>	<u>698</u>
	<u>652</u>	<u>698</u>

21. AMOUNT DUE TO A DIRECTOR

The amount due is unsecured, interest free and repayable on demand.

22. SHORT TERM LOANS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan from a major shareholder	50	50	50	50
Loans from third parties	1,200	2,000	1,200	2,000
	<u>1,250</u>	<u>2,050</u>	<u>1,250</u>	<u>2,050</u>

Loans from third parties of to the extent HK\$400,000 are charged at interest of 1.25% per month and the remaining HK\$800,000 are charged at the interest rate of approximately 54% per annum. The loan of HK\$800,000 was settled on 25 February 2004 and the whole period of the loan was about three months. Loan from a major shareholder is interest-free. All these short term loans are unsecured and repayable within one year.

Notes to Financial Statements

31 December 2003

23. PROMISSORY NOTES

Promissory notes (the "P Notes") with principal amount of HK\$9,000,000 in aggregate were issued by the Company in November 2002 in favor of an independent third party as the consideration for the acquisition of 100% equity interest in a subsidiary. The P Notes bear interest at 3% per annum and are payable on 31 October 2003. During 2002, HK\$2,000,000 had been repaid from the Company. In January 2003 and May 2003, HK\$5,800,000 and HK\$1,200,000 had been repaid respectively from the Company. The holder of the P notes waived all the interest charges from the Company as a result of the early repayment.

24. CONVERTIBLE BONDS

Convertible bonds payable

Convertible bonds (the "Bonds") in the principal amount of HK\$3,000,000 were issued by the Company on 5 September 2003 in favor of four independent third parties pursuant to a bond placement agreement dated 25 August 2003. The Bonds were repayable on 4 September 2004 and interest bearing at 12% per annum. During the year ended 31 December 2003, an amount of HK1,500,000 of the Bonds and accrued interest of HK\$50,795 had been converted into 48,462,327 conversion shares (Note 26(iv)).

Notes to Financial Statements

31 December 2003

25. FINANCE LEASE PAYABLES

At 31 December 2003, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum		Present	
	lease payments		value of minimum	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	–	4,890	–	4,842
In the second year	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total minimum finance				
lease payments	–	4,890	<u>–</u>	<u>4,842</u>
Future finance charges	<u>–</u>	<u>(48)</u>		
Total net finance lease payables	–	4,842		
Portion classified as				
current liabilities	<u>–</u>	<u>(4,842)</u>		
Non-current portion	<u>–</u>	<u>–</u>		

Notes to Financial Statements

31 December 2003

26. ISSUED CAPITAL

The following is a summary of movements in the authorized and issued share capital of the Company:

Shares

	<i>Notes</i>	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK'000
Authorized:			
At 31 December 2002 and 2003		<u>30,000,000,000</u>	<u>300,000</u>
Issued and fully paid:			
At 1 January 2003		620,000,000	6,200
Exercise of warrants	<i>(i)</i>	554	–
New issue of shares by way of rights issue	<i>(ii)</i>	620,000,554	6,200
Finance lease converted to shares	<i>(iii)</i>	18,351,801	183
Conversion of convertible bonds	<i>(iv)</i>	<u>48,462,327</u>	<u>485</u>
At 31 December 2003		<u>1,306,815,236</u>	<u>13,068</u>

Notes to Financial Statements

31 December 2003

26. ISSUED CAPITAL (*continued*)

Shares (*continued*)

The following changes in the Company's issued share capital took place during the year:

- (i) A bonus issue of warrants was made on the basis of 1 warrant for every 5 right shares in last year. Each warrant carries an entitlement to subscribe in cash at a price of HK\$0.25 for 1 ordinary share of the Company, at anytime from 7 March 2002 to 11 March 2003. During the year, the registered holders of 554 warrants exercised their rights to subscribe for ordinary shares. At the balance sheet date, all outstanding warrants had expired.
- (ii) On 30 April 2003, the Company issued 620,000,554 shares by rights issue in the proportion of 1 right share for every 1 share at a subscription price HK\$0.018 per share to repay amount due under finance lease obligations and the associated finance lease charges as well as to provide working capital for the Group.
- (iii) On 15 August 2003, the Company issued new shares at an issued price of HK\$0.1444 per share for the final settlement of an amount of HK\$2,650,000 due under finance lease obligations by the Company to a third party.
- (iv) On 16, 17 and 18 December 2003, an aggregate amount of HK\$1,500,000 of convertible bonds were converted into 48,462,327 shares at a convertible price of HK\$0.032 per share pursuant to the conversion terms and conditions of the bonds.

Shares issued during the year rank *pari passu* in all respects with shares in issue at that time.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

Notes to Financial Statements

31 December 2003

26. ISSUED CAPITAL (*continued*)

Share options (*continued*)

On 26 June 2000, the Scheme was approved pursuant to a written resolution of the Company. The purpose of the Scheme is to enable the Group to grant options to employees as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full-time employee of the Company or its subsidiaries, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes by the Company must not exceed 10% of the shares in issue from time to time. A non-refundable nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option.

The subscription price for shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will be the greater of: (i) the nominal value of the share and (ii) an amount not less than 80 per cent of the average closing price of the shares as stated in the daily quotations immediately preceding the date on which the offer to grant an option is made to an employee.

The maximum number of share in respect of which an option may be granted under the Scheme will not, when aggregated with any shares subject to any other share option schemes of the Company, exceed 10 per cent of the issued share capital of the Company from time to time.

At the beginning of the year, there were 777,600 share options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during the periods ranging from 23 July 2001 to 25 June 2010. The subscription price per share payable upon the exercise of these options is HK\$4.05.

During the year, 188,800 shares options were cancelled and the subscription price per share payable upon the exercise of these options is adjusted to HK\$4.02 to reflect the effect of rights issue during the year and after the balance sheet date (note 33(a)). No share options were granted or exercised during the year.

Notes to Financial Statements

31 December 2003

26. ISSUED CAPITAL (continued)

Share options (continued)

At the balance sheet date, the Company had 588,800 share options outstanding under the Scheme, with an exercise period from 23 July 2001 to 25 June 2010 and an exercise price of HK\$4.02. The exercise in full of the remaining share options would, under the capital structure of the Company as at 31 December 2003, result in the issue of 588,800 additional shares of HK\$0.01 each and proceeds of approximately HK\$2,367,000.

The Scheme remains in force for a period of 10 years with effect from 26 June 2000.

27. (DEFICIT)/RESERVES

Group

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	477,275	(521,826)	(44,551)
Cancelled paid-up ordinary share capital	–	166,382	166,382
Issue of shares	55,601	–	55,601
Issue expenses	(4,755)	–	(4,755)
Net loss for the year	–	(89,333)	(89,333)
At 31 December 2002 and 1 January 2003	528,121	(444,777)	83,344
Issue of shares	8,494	–	8,494
Issue expenses	(161)	–	(161)
Net loss for the year	–	(100,785)	(100,785)
At 31 December 2003	<u>536,454</u>	<u>(545,562)</u>	<u>(9,108)</u>

At 31 December 2003 and 2002, all the (deficit)/reserves were retained by the Company and its subsidiaries and none (2002: None) of such (deficit)/reserves was retained by associates.

Notes to Financial Statements

31 December 2003

27. (DEFICIT)/RESERVES (continued)

Company

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	477,275	(539,345)	(62,070)
Cancelled paid-up ordinary share capital	–	166,382	166,382
Issue of shares	55,601	–	55,601
Issue expenses	(4,755)	–	(4,755)
Net profit for the year	–	698	698
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002 and 1 January 2003	528,121	(372,265)	155,856
Issue of shares	8,494	–	8,494
Issue expenses	(161)	–	(161)
Net loss for the year	–	(27,283)	(27,283)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	<u>536,454</u>	<u>(399,548)</u>	<u>136,906</u>

Notes to Financial Statements

31 December 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash used in operating activities

	2003 HK\$'000	2002 HK\$'000
Loss from operating activities	(99,423)	(88,034)
Interest income	(30)	(98)
Amortization of goodwill	39,782	36,524
Impairment of goodwill	38,552	–
Depreciation of fixed assets	117	3,670
Loss on disposal of fixed assets	513	4,396
Loss/(gain) on disposal of subsidiaries	1,546	(4,890)
Investment securities written off	200	–
Unrealised holding loss on investments in securities	526	3,780
Loss on disposal of trading securities	232	23,323
	<hr/>	<hr/>
Operating loss before working capital changes	(17,985)	(21,329)
Decrease in trade receivables	674	640
Decrease/(increase) in deposits, prepayments and other receivables	11,245	(14,178)
(Decrease)/increase in trade payables	(46)	286
Increase in amounts due to directors	1,693	–
Increase/(decrease) in other payables and accruals	2,184	(4,467)
	<hr/>	<hr/>
Cash used in operations	(2,235)	(39,048)
Interest paid	(486)	(294)
Interest element on finance lease rental payments	(868)	(1,005)
	<hr/>	<hr/>
Net cash used in operating activities	<u>(3,589)</u>	<u>(40,347)</u>

Notes to Financial Statements

31 December 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Investment property	943	–
Investment in associates	–	3
Other receivables	–	1,554
Investments in securities	–	200
Other payables and accruals	(67)	(899)
	<u>876</u>	<u>858</u>
Goodwill arising from acquisition	24	105,792
	<u>900</u>	<u>106,650</u>
Satisfied by:		
Cash	900	97,650
Promissory notes	–	9,000
	<u>900</u>	<u>106,650</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration and net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>900</u>	<u>97,650</u>

Notes to Financial Statements

31 December 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries *(continued)*

During the year, the following significant acquisition took place:

Acquiree	Place of incorporation	Principal activities	Percentages of voting shares acquired	Cost of acquisition HK\$'000	Effective date of acquisition
Gold Union Investment Limited	Hong Kong	Property investment	100%	900	7 March 2003

Notes: The subsidiary acquired during the year ended 31 December 2003 had no significant contribution to the Group's net operating activities cash flow and did not contribute to investing activities and financing activities.

Notes to Financial Statements

31 December 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Investments in securities	–	10,000
Deposits, prepayments and other receivables	906	1,687
Cash and bank balances	14	–
Other payables and accruals	(577)	(1,037)
	<u>343</u>	<u>10,650</u>
Unamortized goodwill	1,203	–
(Loss)/gain on disposal of subsidiaries	(1,546)	4,890
	<u>–</u>	<u>15,540</u>
Satisfied by:		
Cash	–	19,540
Waived amounts due from the disposed subsidiaries	–	(4,000)
	<u>–</u>	<u>15,540</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	–	19,540
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>–</u>	<u>19,540</u>

The subsidiaries disposed of during the year ended 31 December 2003 had no significant impact to the Group's net operating activities cash flow and did not contribute to investing activities and financing activities.

Notes to Financial Statements

31 December 2003

29. CONTINGENT LIABILITIES

As at 31 December 2003, contingent liabilities not provided for in the financial statements were as follows:

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Guarantees given to securities dealers in connection with financing facilities granted to subsidiaries	<u>15,000</u>	<u>15,000</u>

30. LITIGATIONS

- i. A former employee of the Company had been injured on work in February 2003 and made an application order in September 2003 to the District Court for compensation. A permanent loss of 6% earning capacity was assessed by Employees' Compensation (Ordinary Assessment) Board and the actual amount of compensation was not yet determined by the authority. While the final outcome of the proceedings is uncertain, the directors of the Company are of the opinion that the ultimate liability, if any, will not have a material impact upon the Company's financial position and thus no provision for this litigation is made in the Company's and Group's financial statements.
- ii. In October 2003, a former holder of the convertible bonds of the Company had taken legal proceedings against the Company in respect of a conversion of convertible bonds having an aggregate amount of par value of HK\$720,000 into shares without his consent during 2002. No final verdict was made up to the report date of this report. The directors of the Company are of the opinion that as the final outcome is remote and thus no provision for this litigation is made in the Company's and Group's financial statements.

Notes to Financial Statements

31 December 2003

31. OPERATING LEASE COMMITMENTS

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	105	1,055
In the second to fifth years, inclusive	55	229
	<u>160</u>	<u>1,284</u>

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

32. FUTURE OPERATING LEASE INCOME

At the balance sheet date, the total future minimum lease payments under a non-cancellable operating lease are receivable as follow:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	<u>12</u>	<u>–</u>

Notes to Financial Statements

31 December 2003

33. POST BALANCE SHEET EVENTS

- (a) Pursuant to an ordinary resolution passed on 6 February 2004, a rights issue of 5,423,662,308 shares at an issue price of HK\$0.01 per rights share on the basis of four rights share for every one existing share held by members on the register of members on 6 February 2004 (excluding those shareholders with registered addresses outside Hong Kong). The transaction was completed on 25 February 2004 and the proceeds of HK\$54,236,623 before expenses, were received by the Company.

Further details of the rights issue are set out in the prospectus of the Company dated 6 February 2004.

- (b) In March 2004, the Group had disposed four subsidiaries to independent third parties at total consideration of HK\$8,044,000. The transaction incurred an impairment losses of goodwill of HK\$14,470,550 which was recognized in the consolidated profit and loss accounts of this report.

34. RELATED PARTY TRANSACTION

During the year, the Group acquired the entire issued share capital of Gold Union Investment Limited from Mak Chi Yeung, the chairman of the Company, and Sky Concord Development Limited, the ultimate holding company of the Company. The consideration for the acquisition was HK\$900,000.

	2003 HK\$'000	2002 HK\$'000
Acquisition of subsidiary	<u>900</u>	<u>36,000</u>

35. COMPARATIVE FIGURES

With a review of financial statements presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 30 April 2004.