

NOTES TO THE ACCOUNTS

1. CHANGE OF FINANCIAL YEAR END

The Company changed its financial year end from 30 June to 31 December commencing from the year of 2002. The new financial year end was adopted to coincide with the year ends of the Company's various PRC subsidiaries which have a common year end of 31 December. In consequence, the comparative amounts for the consolidated profit and loss account, consolidated cash flow statement, consolidated statement of changes in equity, and the related notes to the accounts are not directly comparable. Certain comparative amounts have been reclassified to conform with the current period's presentation.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investments in securities are stated at fair value.

In the current period, the Group has adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2001:

SSAP 1 (revised) (early adoption)	:	Presentation of financial statements
SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 15 (revised) (early adoption)	:	Cash flow statements
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 31 December 2002.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserve and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the period, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies plus the goodwill on acquisition in so far it has not already been written off or amortised, less any identified impairment loss.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its estimated useful life of not more than 20 years in general. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses. Goodwill arising on the acquisition of an associated company is included within the carrying value of the associated company at cost less any accumulated amortisation and any impairment losses.

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

On disposal of a subsidiary or an associated company, the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

(e) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at annual professional valuation undertaken by independent external valuers at the balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuations are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating results. Any subsequent increases are credited to operating results up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (continued)**(f) Fixed assets**

Fixed assets other than investment properties (note 1(e)) are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	2.0% - 3.3%
Buildings	2.5% - 5.0%
Leasehold improvements	20% - 33 $\frac{1}{3}$ %
Plant and machinery	10% - 15%
Furniture, fixtures and equipment	10% - 20%
Motor vehicles	20% - 25%
Computer equipment	20% - 30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties, plant and machinery and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(g) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Investments in securities

Investment in securities are recognised on a trade date basis and are initially measured at cost. All securities other than held-to-maturity debt securities are subsequently re-measured at fair value.

(i) *Non-trading securities*

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Trading investments*

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Investments in securities (continued)

(iii) *Held-to-maturity securities*

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises purchase cost of stocks in trade, materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Loans and accounts receivable

Provision is made against loans and accounts receivable to the extent they are considered to be doubtful. Loans and accounts receivable in the balance sheet are stated net of such provision.

(k) Options written

Options written by the Group are stated in the balance sheet at fair values as estimated by the directors with reference to the quoted market price of the listed warrants with similar terms. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of options written are recognised in the profit and loss account.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(p) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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 an asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)**(q) Transaction of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(r) Retirement benefits costs

Contributions to the defined contribution retirement schemes and the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred. The assets of these schemes are held in separately administered funds. Under these schemes, both the Group and its eligible employees need to contribute 5% each of the employees' basic monthly salary which is capped at HK\$1,000 per month.

The Group also participates in the employee pension schemes of the respective municipal government in various places in PRC where the Group operates. The Group is to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The Group's contributions to the schemes are expensed as incurred.

(s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, trading and non-trading securities, inventories, receivables, operating cash and other current assets. Segment liabilities comprise operating liabilities, and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from provision of services is recognised when the services are rendered.

All transactions related to dealing in securities, derivatives financial instruments and futures and options contracts, and handling fee and commission income arising from these transactions are based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting period have been taken into account.

Proceeds from disposal of securities are recognised when a sale and purchase contract is entered into.

Corporate finance and advisory fee income are recognised when the service is rendered, the income can be reliably estimated and it is probable that the revenue will be received.

Rental income is recognised on a straight-line basis over the lease term.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in investment holding, the provision of financial services, including securities broking, futures broking, corporate finance, financial advisory and proprietary trading, the provision of consulting, marketing and technology services, garment manufacturing, property holding, country club operation and dyestuffs distribution. Revenues recognised during the period/year are as follows:

	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000
Turnover		
Sales of goods	85,270	97,036
Manufacturing processing services	25,759	16,360
Country club services	10,949	10,290
Brokerage commission from dealing in securities, equity options, futures and options contracts	39,430	17,511
Proceeds from sale of trading investments	10,963	12,764
Trading and handling income from financial derivative products	—	8,460
Corporate finance and advisory fee income	72,879	9,789
Commission from new issues and underwriting activities	15,093	3,642
Fund and others management fee income	5,440	—
Gross rental income from investment properties	6,197	6,492
Service income from provision of public relation services	9,495	—
Service income from provision of technology, consulting and development services and related distribution income	42,543	—
Interest income derived from financial services	8,988	3,179
Dividend income from non-trading securities	1,290	1,950
	334,296	187,473
Other revenues		
Interest income	1,845	3,982
Others	—	1,595
	1,845	5,577
Total revenues	336,141	193,050

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Business segments

The Group is organized into six main business segments:

- Investment holding
- Financial services
- Consulting, marketing & technology services
- Garment manufacturing
- Property holding & others
- Dyestuffs distribution

Investment holding is one of the Group's segments, and accordingly the Group's trading investments, non-trading securities and the corresponding income/expenses, were included in the segment assets and results, respectively.

From 24 January 2002, the Group discontinued its operation in dyestuffs distribution.

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Segment information about these businesses is presented below:

Profit And Loss Account

For the eighteen months ended 31 December 2002

	Investment holding	Financial services	Consulting, marketing & technology services	Garment manufacturing	Property holding & others	Dyestuffs distribution (note)	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
Segment total	9,149	154,694	57,846	87,957	18,860	18,464	346,970
Inter-segment	(4,354)	(7,048)	(986)	—	(1,576)	—	(13,964)
Group total	4,795	147,646	56,860	87,957	17,284	18,464	333,006
Dividend income	1,290						1,290
							<u>334,296</u>
Segment results							
Segment total	(54,856)	(9,376)	605	4,068	(19,614)	(1,384)	(80,557)
Inter-segment	3,619	(6,986)	(133)	—	1,476	2,024	—
Gain on disposal of subsidiaries	710	—	—	—	—	—	710
Loss on disposal of non-trading securities	(3,150)	—	—	—	—	—	(3,150)
Provision for impairment of non-trading securities	(98,153)	—	(25,400)	—	—	—	(123,553)
Amortisation of goodwill in respect of subsidiaries	—	(18,502)	(1,883)	—	—	—	(20,385)
Group total	(151,830)	(34,864)	(26,811)	4,068	(18,138)	640	(226,935)
Dividend income	1,290						1,290
Unallocated income							1,845
Amortisation of goodwill in respect of associated company			(165)				(165)
Impairment of goodwill		(225,112)	(39,151)				(264,263)
Finance costs							(8,917)
Share of results of associated companies			1,994				1,994
Loss before taxation							(495,151)
Taxation							(4,831)
Minority interests							2,518
Loss attributable to shareholders							<u>(497,464)</u>

Note: Discontinued operations

The Group sold the dyestuffs distribution operation in January 2002 at a gain of HK\$1,013,000.

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Balance Sheet*As at 31 December 2002*

	Investment holding	Financial services	Consulting, marketing & technology services	Garment manufacturing	Property holding & others	Dyestuffs distribution	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Segment assets	206,215	78,567	38,043	55,152	88,871	—	466,848
Interests in associates	24,255	—	—	—	3	—	24,258
Group total							<u>491,106</u>
LIABILITIES							
Segment liabilities	292,225	11,764	18,139	7,459	14,288	—	343,875
Unallocated liabilities	—	—	—	—	—	—	708
Group total							<u>344,583</u>

Other information*For the eighteen months ended 31 December 2002*

	Investment holding	Financial services	Consulting, marketing & technology services	Garment manufacturing	Property holding & others	Dyestuffs distribution	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	228	4,972	378	3,698	395	431	10,102
Depreciation	1,321	3,797	285	5,582	2,851	133	13,969
Provision for impairment of non-trading securities recognised: — in profit and loss account	98,153	—	25,400	—	—	—	123,553
— directly in reserves	46,740	—	—	—	—	—	46,740
Impairment of goodwill	—	225,112	39,151	—	—	—	264,263
Deficit on revaluation of investment properties recognised in profit and loss account	—	—	—	—	18,052	—	18,052

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Profit And Loss Account

For the twelve months ended 30 June 2001

	Investment holding	Financial services	Garment manufacturing	Property holding & others	Dyestuffs distribution	Household fabric (note)	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover							
Segment total	4,346	55,345	62,454	17,839	38,983	13,020	191,987
Inter-segment	(3,164)	—	—	(2,970)	(330)	—	(6,464)
Group total	1,182	55,345	62,454	14,869	38,653	13,020	185,523
Dividend income	1,950						1,950
							187,473
Segment results							
Segment total	(19,827)	(21,293)	3,316	3,595	(6,830)	(1,716)	(42,755)
Inter-segment	(3,116)	—	330	(1,542)	3,691	637	—
Gain on disposal of subsidiaries	14,936	—	—	—	—	—	14,936
Provision for impairment of non-trading securities	(73,483)	—	—	—	—	—	(73,483)
Amortisation of goodwill	—	(3,084)	—	—	—	—	(3,084)
Group total	(81,490)	(24,377)	3,646	2,053	(3,139)	(1,079)	(104,386)
Dividend income	1,950						1,950
Unallocated income							5,677
Finance costs							(8,312)
Share of loss of an associated company					(58)		(58)
Loss before taxation							(105,129)
Taxation							(1,961)
Minority interests							9,904
Loss attributable to shareholders							(97,186)

Note : Discontinued operations

The Group sold the household fabric operation in October 2000 at a gain of HK\$14,462,000.

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Balance Sheet*As at 30 June 2001*

	Investment holding	Financial services	Garment manufacturing	Property holding & others	Dyestuffs distribution	Household fabric	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Segment assets	200,086	799,165	57,037	153,010	27,070	—	1,236,368
Interests in associates	—	—	—	19	—	—	19
Group total							<u>1,236,387</u>
LIABILITIES							
Segment liabilities	113,385	419,900	17,242	13,795	13,404	—	577,726
Unallocated liabilities	—	—	—	—	—	—	8,329
Group total							<u>586,055</u>

Other information*For the twelve months ended 30 June 2001*

	Investment holding	Financial services	Garment manufacturing	Property holding & others	Dyestuffs distribution	Household fabric	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	174	4,316	330	79	180	13	5,092
Depreciation	878	1,079	4,412	3,292	196	8	9,865
Provision for impairment of non-trading securities recognised:							
— in profit and loss account	73,483	—	—	—	—	—	73,483
— directly in reserves	23,703	—	—	—	—	—	23,703
Surplus on revaluation of investment properties recognised in profit and loss account	—	—	—	—	1,493	—	1,493

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Geographical segments

The Group's business segments are managed and operated in the following main geographical areas:

- Hong Kong
- Mainland China
- Other countries

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

For the eighteen months ended 31 December 2002

	Hong Kong	Mainland China	Other countries	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	171,242	103,734	59,320	334,296
Other revenue	1,672	173	—	1,845
	<u>172,914</u>	<u>103,907</u>	<u>59,320</u>	<u>336,141</u>
External revenue	<u>172,914</u>	<u>103,907</u>	<u>59,320</u>	<u>336,141</u>
Segment assets	<u>375,632</u>	<u>110,314</u>	<u>5,160</u>	<u>491,106</u>
Capital expenditure incurred during the period	<u>5,377</u>	<u>4,098</u>	<u>627</u>	<u>10,102</u>

For the twelve months ended 30 June 2001

	Hong Kong	Mainland China	Other countries	Group total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	99,776	82,093	5,604	187,473
Other revenue	5,464	73	40	5,577
	<u>105,240</u>	<u>82,166</u>	<u>5,644</u>	<u>193,050</u>
External revenue	<u>105,240</u>	<u>82,166</u>	<u>5,644</u>	<u>193,050</u>
Segment assets	<u>1,115,560</u>	<u>106,860</u>	<u>13,967</u>	<u>1,236,387</u>
Capital expenditure incurred during the period	<u>4,717</u>	<u>355</u>	<u>20</u>	<u>5,092</u>

NOTES TO THE ACCOUNTS

4. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	18-months ended	12-months ended
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Crediting :		
Write back of provision for doubtful debts/ loans receivable	9,032	—
Gain on disposal of fixed assets	—	427
	9,032	427
Charging :		
Loss on disposal of fixed assets	2,862	—
Outgoings in respect of investment properties	480	323
Auditors' remuneration	3,972	1,385
Retirement benefit costs	5,439	1,935
Employees' benefits (excluding directors' emoluments)	100,095	38,747
Operating lease rentals in respect of land and buildings	16,404	4,276
Depreciation on owned fixed assets	13,969	9,865
Cost of goods sold	94,065	95,793
Net realised and unrealised losses on trading investments	4,802	785
Provision for doubtful debts and loans receivable	13,541	17,446
Provision for slow moving inventories	101	1,974
Provision for long service payments	27	287
Net exchange loss	11,719	—
Amortisation of goodwill in respect of		
- the acquisition of subsidiaries	20,385	3,084
- the acquisition of an associated company	165	—
	20,550	3,084

The retirement benefit costs charged to the profit and loss represent gross contributions payable by the Group of HK\$5,535,000 (12-months ended 30 June 2001: HK\$2,064,000) less forfeited voluntary contributions utilised of HK\$96,000 (12-months ended 30 June 2001: HK\$129,000). As at 31 December 2002, unutilised forfeited voluntary contributions which are available to reduce the contributions payable by the Group in the future amounted to HK\$187,000 (30 June 2001: HK\$20,000).

NOTES TO THE ACCOUNTS

5. FINANCE COSTS

	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	5,000	9,095
Interest on client accounts and other loans wholly repayable within five years	432	893
Interest on loans from an intermediate holding company, a fellow subsidiary and a substantial shareholder wholly repayable within five years	2,118	—
Interest on 5% Guaranteed Convertible Notes due 2005	2,700	—
	10,250	9,988

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents :

	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000
Company and subsidiaries :		
Hong Kong profits tax	1,210	762
PRC taxation	915	1,199
Overseas taxation	4,188	—
Overprovision in prior period	(1,656)	—
Deferred taxation - Overseas	174	—
	4,831	1,961

NOTES TO THE ACCOUNTS

7. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments are analysed as follows:

	18-months ended	12-months ended
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Fees	165	104
Salaries and other allowances	9,861	4,577
Benefits from shares issued under a share option scheme	150	4,500
Bonuses	493	258
Pensions	152	119
	<hr/>	<hr/>
	10,821	9,558
	<hr/> <hr/>	<hr/> <hr/>

Fees to independent non-executive directors amounted to HK\$165,000 (12-months ended 30 June 2001: HK\$69,000) for the period.

The directors' emoluments fell within the following bands:

Emoluments band	Number of directors	
	18-months ended	12-months ended
	31 December 2002	30 June 2001
HK\$ Nil - HK\$1,000,000	12	12
HK\$1,000,001 - HK\$1,500,000	—	1
HK\$1,500,001 - HK\$2,000,000	3	—
HK\$4,500,001 - HK\$5,000,000	1	—
HK\$5,000,001 - HK\$5,500,000	—	1
	<hr/>	<hr/>
	16	14
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS

7. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

During the period, 25,000,000 share options were granted to the directors under the share option scheme approved by the shareholders at the Annual General Meeting on 25 October 2000 and 135,988,000 share options were granted under the share option scheme approved on 30 October 2001. Each of the options entitles the holder to subscribe for one ordinary share of HK\$0.1 each in the Company at a premium of HK\$0.18 to HK\$0.38 each at any time during the period from 1 November 2000 to 20 February 2012. During the period, 15,000,000 share options had been exercised by a director, 65,000,000 share options had been cancelled and 29,402,000 share options had been lapsed. Any benefits arising from the exercise of the share options were calculated with reference to the difference between the exercise price and the market value at the exercise date.

(b) Employees' emoluments

The five highest paid individuals included 1 director (12-months ended 30 June 2001: 5), details of whose emoluments are included in the amounts disclosed in (a) above. The emoluments of the remaining 4 (12-months ended 30 June 2001: nil) highest paid individuals are as follows:

	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000
Salaries and other allowances	9,469	—
Pensions	102	—
	<u>9,571</u>	<u>—</u>

The employees' emoluments fell within the following bands:

Emoluments band	Number of employees	
	18-months ended 31 December 2002	12-months ended 30 June 2001
HK\$2,000,001 - HK\$2,500,000	3	—
HK\$2,500,001 - HK\$3,000,000	1	—
	<u>4</u>	<u>—</u>

NOTES TO THE ACCOUNTS

8. DIVIDEND

The Directors have resolved not to pay any dividend in respect of the eighteen months ended 31 December 2002 (12-months ended 30 June 2001: nil).

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the accounts of the Company is HK\$454,139,000 (12-months ended 30 June 2001: HK\$220,429,000).

10. LOSS PER SHARE

The loss per share is calculated based on the loss attributable to shareholders of HK\$497,464,000 (12-months ended 30 June 2001: HK\$97,186,000) and on the weighted average number of 2,380,208,728 (12-months ended 30 June 2001: 1,971,781,974) ordinary shares in issue during the period.

The diluted loss per share is not shown as the effect of the assumed conversion of the Group's outstanding convertible notes and the exercise of the share options granted by the Company would be regarded as anti-dilutive.

NOTES TO THE ACCOUNTS

11. GOODWILL

	Group
	HK\$'000
Cost	
At 1 July 2001	246,698
Additions (<i>note a</i>)	41,034
	<hr/>
At 31 December 2002	287,732
	<hr/>
Amortisation and impairment loss	
At 1 July 2001	3,084
Amortisation charge for the period	20,385
Impairment loss for the period (<i>note b</i>)	264,263
	<hr/>
At 31 December 2002	287,732
	<hr/>
Net book value	
At 31 December 2002	—
	<hr/> <hr/>
At 30 June 2001	243,614
	<hr/> <hr/>

Notes:

- (a) The goodwill arose from the acquisition of a 60% interest in Software Gateway Limited (which holds 99% equity interest of Electrum Information Technology Co., Ltd. ("Electrum")) and a 100% interest in ebizal (Holdings) Limited.
- (b) The Directors, having taken into account the revenues generated from the previously acquired subsidiaries during the period under review, the prevailing uncertain and sluggish economic condition, and the estimated future cash flows to be generated from the operations of the acquired businesses, are of the opinion that the premium arising on the acquisition of the subsidiaries are not recoverable and should not be carried forward in the accounts. Accordingly, an impairment loss of HK\$264,263,000 was recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

12. FIXED ASSETS

Group

	Investment properties	Other properties	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK'000
Cost or valuation								
At 1 July 2001	69,480	116,523	9,198	39,137	20,198	6,200	10,490	271,226
Exchange adjustments	—	—	14	—	3	44	—	61
Additions	—	760	2,536	2,390	1,981	551	1,884	10,102
Acquisition of subsidiaries	—	—	73	—	830	299	161	1,363
Disposal of subsidiaries	(10,350)	(38,292)	(5,529)	—	(3,281)	(544)	(1,342)	(59,338)
Disposals	(1,550)	(226)	(2,844)	(9,559)	(787)	(3,307)	(5,430)	(23,703)
Revaluation	(18,052)	—	—	—	—	—	—	(18,052)
At 31 December 2002	<u>39,528</u>	<u>78,765</u>	<u>3,448</u>	<u>31,968</u>	<u>18,944</u>	<u>3,243</u>	<u>5,763</u>	<u>181,659</u>
Accumulated depreciation								
At 1 July 2001	—	21,863	6,919	35,436	14,439	1,888	7,055	87,600
Exchange adjustments	—	—	8	—	13	15	—	36
Charge for the period	—	3,788	1,503	2,569	2,475	2,201	1,433	13,969
Acquisition of subsidiaries	—	—	73	—	360	74	36	543
Disposal of subsidiaries	—	(7,492)	(4,609)	—	(2,707)	(364)	(973)	(16,145)
Disposals	—	—	(2,121)	(9,094)	(785)	(1,654)	(4,594)	(18,248)
At 31 December 2002	<u>—</u>	<u>18,159</u>	<u>1,773</u>	<u>28,911</u>	<u>13,795</u>	<u>2,160</u>	<u>2,957</u>	<u>67,755</u>
Net book value								
At 31 December 2002	<u>39,528</u>	<u>60,606</u>	<u>1,675</u>	<u>3,057</u>	<u>5,149</u>	<u>1,083</u>	<u>2,806</u>	<u>113,904</u>
At 30 June 2001	<u>69,480</u>	<u>94,660</u>	<u>2,279</u>	<u>3,701</u>	<u>5,759</u>	<u>4,312</u>	<u>3,435</u>	<u>183,626</u>
The analysis of cost or valuation of the above assets is as follows:								
At cost	—	78,765	3,448	31,968	18,944	3,243	5,763	142,131
At professional valuation - 2002	<u>39,528</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>39,528</u>
	<u>39,528</u>	<u>78,765</u>	<u>3,448</u>	<u>31,968</u>	<u>18,944</u>	<u>3,243</u>	<u>5,763</u>	<u>181,659</u>

NOTES TO THE ACCOUNTS

12. FIXED ASSETS (continued)

The investment properties were revalued on an open market value basis as at 31 December 2002 by an independent valuer, Insignia Brooke, Chartered Surveyors.

The Group's interests in investment properties and other properties at their net book values are as follows:

	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Held in Hong Kong on:		
Leases of over 50 years	4,480	7,800
Leases between 10 to 50 years	35,880	93,229
Held outside Hong Kong on :		
Leases between 10 to 50 years	59,774	63,111
	100,134	164,140

At 31 December 2002, certain investment properties with an open market value of HK\$4,480,000 (30 June 2001: HK\$29,800,000) and certain other properties with a total net book value of HK\$12,706,000 (30 June 2001: HK\$44,898,000) of the Group were pledged to secure banking facilities granted to the Group.

NOTES TO THE ACCOUNTS

12. FIXED ASSETS (continued)

Company

	Leasehold improvements	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 July 2001	1,938	2,111	666	127	4,842
Additions	—	4	4	220	228
Disposals	(1,938)	(786)	(8)	(127)	(2,859)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	—	1,329	662	220	2,211
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation					
At 1 July 2001	764	1,320	382	64	2,530
Charge for the period	581	387	267	85	1,320
Disposals	(1,345)	(785)	(5)	(67)	(2,202)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	—	922	644	82	1,648
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2002	—	407	18	138	563
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2001	1,174	791	284	63	2,312
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

13. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	122,411	55,748
Amounts due from subsidiaries	572,235	538,780
Amounts due to subsidiaries	(25,571)	(15,419)
	669,075	579,109
Less: Provision for diminution in value		
- Unlisted shares, at cost	(94,847)	(23,258)
- Amounts due from subsidiaries	(475,610)	(180,168)
	98,618	375,683

Details of principal subsidiaries are set out in note 39.

14. OTHER ASSETS

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Statutory and other deposits relating to the securities, options and futures contracts dealing businesses	3,853	4,000
Stock Exchange and Futures Exchange trading rights	1	1
	3,854	4,001

NOTES TO THE ACCOUNTS

15. INTERESTS IN ASSOCIATED COMPANIES

	Group		Company	
	31 December 2002 HK\$'000	30 June 2001 HK\$'000	31 December 2002 HK\$'000	30 June 2001 HK\$'000
Share of net assets	14,511	19	—	—
Goodwill (note)	9,747	—	—	—
	<u>24,258</u>	<u>19</u>	<u>—</u>	<u>—</u>
Unlisted shares, at cost	<u>22,426</u>	<u>1</u>	<u>22,425</u>	<u>—</u>

Note: The movement in goodwill arising from acquisition of an associated company is as follows:

	HK\$'000
Gross amount of goodwill arising on acquisition of an associated company during the period ended 31 December 2002	9,912
Amortisation	
Charge for the period	<u>(165)</u>
Carrying value at 31 December 2002	<u>9,747</u>

Details of the associated companies at 31 December 2002 are as follows:

Name	Place of incorporation and operation	Percentage of equity held by		Principal activities
		Company	Group	
Colour Star Dyestuffs Company Limited	Hong Kong	—	50%	Dormant
*Supresoft Imagis Inc.	British Virgin Islands	27.6%	—	Sale and develop software and hardware products and the provision of data processing service

* Associated company acquired during the period is not audited by PricewaterhouseCoopers, Hong Kong

NOTES TO THE ACCOUNTS

16. NON-TRADING SECURITIES

	Group		Company	
	31 December 2002 HK\$'000	30 June 2001 HK\$'000	31 December 2002 HK\$'000	30 June 2001 HK\$'000
Equity securities, at fair value				
Listed in Hong Kong	55,151	39,682	33,102	39,682
Listed outside Hong Kong	1,634	14,992	—	—
	<u>56,785</u>	<u>54,674</u>	<u>33,102</u>	<u>39,682</u>
Unlisted	47,201	98,447	38,516	97,447
	<u>103,986</u>	<u>153,121</u>	<u>71,618</u>	<u>137,129</u>
Debt securities				
Unlisted convertible debt securities	23,851	—	—	—
	<u>127,837</u>	<u>153,121</u>	<u>71,618</u>	<u>137,129</u>
Market value of listed securities				
Listed in Hong Kong	55,151	39,650	33,102	39,650
Listed outside Hong Kong	1,634	2,162	—	—
	<u>56,785</u>	<u>41,812</u>	<u>33,102</u>	<u>39,650</u>

In accordance with the Group's accounting policies on investments in securities, the directors have reviewed the Group's individual investments at 31 December 2002 in order to determine if their fair value has been impaired. Following the review, the directors concluded that the fair value of the Group's investment in securities have diminished by an aggregate of HK\$170,293,000, of which HK\$123,553,000 is currently considered a permanent diminution. Accordingly, a provision for impairment loss of HK\$123,553,000 had been made in respect of its equity interests in internet and technology, travel related investments and a technology fund as well as its debt investment in a private company whose principal activity is property development in Hong Kong. The remaining HK\$46,740,000 has been accounted for in the investment revaluation reserves on the balance sheet.

NOTES TO THE ACCOUNTS

17. LOANS RECEIVABLE

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Due within one year	—	27,467
Less: Provision	—	(16,240)
	<u>—</u>	<u>11,227</u>
Due after one year	21,630	—
Less: Provision	(16,515)	—
	<u>5,115</u>	<u>—</u>
Total	5,115	11,227

At 31 December 2002, the loans receivable are unsecured, non-interest bearing and scheduled for repayments on or before 25 October 2005.

18. INVENTORIES

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Raw materials	2,091	3,130
Work in progress	5,744	2,718
Finished goods	1,002	57
Stocks in trade	2,203	9,558
	<u>11,040</u>	<u>15,463</u>

As at 31 December 2002, there were no inventories carried at net realisable value (30 June 2001: HK\$149,000).

NOTES TO THE ACCOUNTS

19. ACCOUNTS RECEIVABLE

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in securities, options and futures contracts (<i>note a</i>)	7,010	297,097
Accounts receivable from securities margin clients (<i>note b</i>)	961	33,837
Accounts receivable arising from dyestuffs distribution and garment manufacturing (<i>note c</i>)	7,335	23,942
Accounts receivable arising from consulting, marketing and technology services (<i>note d</i>)	5,897	—
Other trade debtors	2,886	6,422
	<u>24,089</u>	<u>361,298</u>

Notes:

- (a) The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities are two days after trade date, whereas the settlement terms for those arising from the ordinary course of business of dealing in options and futures contracts are one day after trade date.
- (b) Accounts receivable from securities margin clients are secured by clients' pledged securities, and are repayable on demand and bear interest at commercial rates. The market value of the pledged securities at 31 December 2002 was HK\$57 million (30 June 2001: HK\$107 million).
- (c) The credit terms of accounts receivable arising from dyestuffs distribution and garment manufacturing range from 30 days to 180 days.
- (d) The credit terms of accounts receivable arising from consulting, marketing and technology services range from 30 days to 60 days.
- (e) The Group maintains clients' monies arising from the ordinary course of business of dealing in options and futures contracts in trust with Hong Kong Futures Exchange Clearing Corporation and SEHK Options Clearing House Limited. At 31 December 2002, the Group held HK\$19,862,000 (30 June 2001: HK\$4,862,000) in trust for clients with Hong Kong Futures Exchange Clearing Corporation which is not included on the balance sheet.

NOTES TO THE ACCOUNTS

19. ACCOUNTS RECEIVABLE (continued)

(f) The aging analysis of the accounts receivable balance is as follows :

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
0 - 1 month	14,712	342,919
2 - 3 months	4,779	13,292
4 - 6 months	1,258	3,196
Over 6 months	3,340	1,891
	<u>24,089</u>	<u>361,298</u>

20. TRADING INVESTMENTS

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Equity securities, at market value		
Listed in Hong Kong	174	3,058
Listed outside Hong Kong	176	666
	<u>350</u>	<u>3,724</u>
Unlisted equity securities, at fair value	3,122	—
	<u>3,472</u>	<u>3,724</u>
Listed warrants in Hong Kong, at market value	—	63,611
Unlisted warrants, at fair value	309	—
	<u>3,781</u>	<u>67,335</u>

At 30 June 2001, the warrants were held for hedging over-the-counter options written by the Group (note 26).

NOTES TO THE ACCOUNTS

21. SUNDRY DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balance is a deposit of HK\$30 million which represents an amount provisionally paid for the proposed acquisition of 30% equity interest in Shenzhen Huijin Science and Technology Company Limited. Subsequent to the payment of the deposit, the directors decided not to proceed with the investment and exercised the Group's right for the refund of the deposit. The deposit has yet to be paid back and negotiations are still ongoing with the vendors in an effort to come to an alternative solution acceptable to the Group.

22. AMOUNT DUE FROM/TO A RELATED COMPANY

The balance represents an amount due from/to E2-Capital Group (see note 37). The amount due from/to E2-Capital Group as at 31 December 2002 is unsecured, interest free and has no fixed terms of repayment. The amount due to E2-Capital Group as at 30 June 2001 was unsecured, interest bearing at Hong Kong dollar prime rate plus 1% and had no fixed terms of repayment (note 37(e)).

23. PLEDGED BANK DEPOSITS

At 31 December 2002 and 30 June 2001, bank deposits of HK\$5 million were pledged to a bank to secure general banking facilities of the Group.

24. CASH AND BANK BALANCES

The Group maintains clients' monies arising from the ordinary course of business of dealing in securities, options and futures contracts in trust with authorised financial institutions. As at 31 December 2002, the Group held HK\$44,735,000 (30 June 2001: HK\$58,546,000) in trust for clients which is not included on the balance sheet.

NOTES TO THE ACCOUNTS

25. ACCOUNTS PAYABLE

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities, options and futures contracts	—	132,388
Accounts payable arising from dyestuffs distribution, garment manufacturing and operation of a country club	8,943	19,839
Accounts payable arising from consulting, marketing and technology services	2,554	—
Other trade creditors	5	—
	<u>11,502</u>	<u>152,227</u>

As at 31 December 2002, the accounts payable arising from the ordinary course of business of dealing in securities, options and futures contracts excluded monies held in trust for clients (notes 19 and 24).

The aging analysis of the accounts payable balance is as follows :

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
0 - 1 month	8,046	137,769
2 - 3 months	1,780	5,688
4 - 6 months	264	3,381
Over 6 months	1,412	5,389
	<u>11,502</u>	<u>152,227</u>

NOTES TO THE ACCOUNTS

26. OPTIONS WRITTEN

At 31 December 2002, there was no over-the-counter equity options written by the Group and the fair value of the over-the-counter equity options written by the Group at 30 June 2001 was HK\$63,611,000. The notional amounts of these options, measured by the market value of the underlying shares at 30 June 2001, were as follows:

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Call options	—	179,309
Put options	—	494,794
	<hr/>	<hr/>
	—	674,103
	<hr/> <hr/>	<hr/> <hr/>

The notional amounts are an indication of the Group's degree of option activities and do not represent the Group's potential exposure to market or credit risks. The Group hedged its market exposures arising from the over-the-counter equity options by holding certain listed warrants (note 20).

27. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to Softbank Finance Corporation ("SBF") as at 30 June 2001 was unsecured, interest free and had no fixed terms of repayment.

28. LOAN FROM A SUBSIDIARY

The balance represents a loan from SBI E2-Capital Asia Limited, a 51% indirect owned subsidiary of the Company. The loan is unsecured, interest bearing at 6.625% per annum and scheduled to repay within one year.

29. LOAN FROM A SUBSTANTIAL SHAREHOLDER

The balance represents a loan from Softbank Investment Corporation. The loan, denominated in Japanese yen, is unsecured, interest bearing at 2.375% per annum and scheduled to repay within one year.

NOTES TO THE ACCOUNTS

30. LONG TERM LIABILITIES

	Group		Company	
	31 December 2002 HK\$'000	30 June 2001 HK\$'000	31 December 2002 HK\$'000	30 June 2001 HK\$'000
Secured bank loans				
wholly repayable within five years (<i>note a</i>)	—	9,112	—	9,112
Loan from an intermediate holding company (<i>note b</i>)	9,921	—	9,921	—
Loan from a fellow subsidiary (<i>note c</i>)	59,130	—	59,130	—
Loan from a subsidiary (<i>note d</i>)	—	—	151,572	—
	69,051	9,112	220,623	9,112
Amounts due within one year included under current liabilities	—	(1,600)	—	(1,600)
	69,051	7,512	220,623	7,512

Notes:

- (a) The long term bank loan was fully repaid on 15 January 2002.
- (b) The balance represents a loan from SBF, an intermediate holding company of the Company. The loan, denominated in Japanese yen, is unsecured, interest bearing at 2.375% per annum and subordinated to the Convertible Notes (note 33).
- (c) The balance represents a loan from SB Titus Corporation, a wholly owned subsidiary of SBF. The loan, denominated in Japanese yen, is unsecured, interest bearing at 2.375% per annum and subordinated to the Convertible Notes (note 33).
- (d) The balance represents a loan from SIIS Treasury Limited, a wholly owned subsidiary of the Company. The loan is unsecured, interest bearing at 3% per annum and has no fixed repayment terms.

NOTES TO THE ACCOUNTS

31. SHARE CAPITAL

Authorised:

	Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 July 2000 and at 30 June 2001	5,000,000,000	500,000
Increase during the period (<i>note a</i>)	1,000,000,000	100,000
	<u>6,000,000,000</u>	<u>600,000</u>

Issued and fully paid:

At 1 July 2000	1,885,915,878	188,591
Issue of shares (<i>notes b to d</i>)	344,474,999	34,448
Exercise of options (<i>note f</i>)	15,000,000	1,500
	<u>2,245,390,877</u>	<u>224,539</u>
At 30 June 2001 and at 1 July 2001	2,245,390,877	224,539
Issue of shares (<i>note e</i>)	180,000,000	18,000
Exercise of options (<i>note f</i>)	15,000,000	1,500
	<u>2,440,390,877</u>	<u>244,039</u>

Notes:

- (a) By an ordinary resolution passed on 2 August 2002, the authorised share capital of the Company was increased from HK\$500,000,000 to HK\$600,000,000 by the creation of 1,000,000,000 additional ordinary shares of HK\$0.10 each.
- (b) On 2 April 2001, the Company issued 132,653,061 ordinary shares to Softbank Investment (International) Holdings Limited at a premium of HK\$0.88 per share for cash amounting to HK\$130,000,000 to finance the acquisition of a 51% interest in SBI E2-Capital Limited. These shares rank pari passu with the existing shares.
- (c) On 2 April 2001, the Company issued 192,346,938 ordinary shares at a premium of HK\$0.88 per share as part of the consideration for the acquisition of a 51% interest in SBI E2-Capital Limited. These shares rank pari passu with the existing shares.
- (d) On 7 May 2001, the Company issued 19,475,000 ordinary shares at a premium of HK\$0.9 per share as consideration for the acquisition of the entire issued share capital of Sumoton Investment Limited which holds an investment in PhilWeb Corporation (formerly PhilWeb. Com, Inc.). These shares rank pari passu with the existing shares.

NOTES TO THE ACCOUNTS

31. SHARE CAPITAL (continued)

- (e) The Company issued 100,000,000 ordinary shares and 80,000,000 ordinary shares on 11 December 2001 and 18 January 2002 respectively at a premium of HK\$0.20 per share for cash which amounted to HK\$54,000,000 for investments in the PRC and general working capital of the Group. These shares rank pari passu with the existing shares.
- (f) During the eighteen month period ended 31 December 2002, 15,000,000 share options (during the twelve month period ended 30 June 2001: 15,000,000 share options) granted under the share option scheme adopted by the Company on 25 October 2000 were exercised by a grantee at an exercise price of HK\$0.48 per share. Details of the Company's share option schemes are shown in the Report of the Directors.

NOTES TO THE ACCOUNTS

32. RESERVES

	Accumulated						Total HK\$'000
	Share	Capital	Capital	Investment	Exchange	(losses)/	
	premium	redemption	reserve	revaluation	translation	retained	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	profits
Group							
At 1 July 2000	274,834	1,899	14,786	(26,789)	(6,383)	(102,812)	155,535
Issue of ordinary shares	309,227	—	—	—	—	—	309,227
Share issue expenses	(1,608)	—	—	—	—	—	(1,608)
Capital reserve released to profit and loss account on disposal of subsidiaries	—	—	(14,786)	—	—	—	(14,786)
Exchange translation reserve released to the profit and loss account on disposal of a subsidiary	—	—	—	—	(150)	—	(150)
Exchange difference arising on translation of subsidiaries	—	—	—	—	(43)	—	(43)
Deficit on revaluation of non-trading securities	—	—	—	(95,908)	—	—	(95,908)
Investment revaluation reserve transferred to the profit and loss account upon impairment of non-trading securities	—	—	—	73,483	—	—	73,483
Loss for the year	—	—	—	—	—	(97,186)	(97,186)
At 30 June 2001	<u>582,453</u>	<u>1,899</u>	<u>—</u>	<u>(49,214)</u>	<u>(6,576)</u>	<u>(199,998)</u>	<u>328,564</u>
Company and subsidiaries	582,453	1,899	—	(49,214)	(6,576)	(200,016)	328,546
Associated companies	—	—	—	—	—	18	18
	<u>582,453</u>	<u>1,899</u>	<u>—</u>	<u>(49,214)</u>	<u>(6,576)</u>	<u>(199,998)</u>	<u>328,564</u>

NOTES TO THE ACCOUNTS

32. RESERVES (continued)

	Share premium	Capital redemption reserve	Capital reserve	Investment revaluation reserve	Exchange translation reserve	Accumulated (losses)/ retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2001	582,453	1,899	—	(49,214)	(6,576)	(199,998)	328,564
Issue of ordinary shares	41,700	—	—	—	—	—	41,700
Share issue expenses	(2,336)	—	—	—	—	—	(2,336)
Exchange difference arising on translation of subsidiaries	—	—	—	—	240	—	240
Deficit on revaluation of non-trading securities	—	—	—	(170,293)	—	—	(170,293)
Investment revaluation reserve transferred to the profit and loss account upon impairment of non-trading securities	—	—	—	123,553	—	—	123,553
Loss for the period	—	—	—	—	—	(497,464)	(497,464)
At 31 December 2002	<u>621,817</u>	<u>1,899</u>	<u>—</u>	<u>(95,954)</u>	<u>(6,336)</u>	<u>(697,462)</u>	<u>(176,036)</u>
Company and subsidiaries	621,817	1,899	—	(95,954)	(6,336)	(699,474)	(178,048)
Associated companies	—	—	—	—	—	2,012	2,012
	<u>621,817</u>	<u>1,899</u>	<u>—</u>	<u>(95,954)</u>	<u>(6,336)</u>	<u>(697,462)</u>	<u>(176,036)</u>

NOTES TO THE ACCOUNTS

32. RESERVES (continued)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company					
At 1 July 2000	274,834	1,899	(26,789)	(92,858)	157,086
Issue of ordinary shares	309,227	—	—	—	309,227
Share issue expenses	(1,608)	—	—	—	(1,608)
Deficit on revaluation of non-trading securities	—	—	(91,425)	—	(91,425)
Investment revaluation reserve transferred to the profit and loss account upon impairment of non-trading securities	—	—	69,000	—	69,000
Loss for the year	—	—	—	(220,429)	(220,429)
At 30 June 2001	<u>582,453</u>	<u>1,899</u>	<u>(49,214)</u>	<u>(313,287)</u>	<u>221,851</u>
At 1 July 2001	582,453	1,899	(49,214)	(313,287)	221,851
Issue of ordinary shares	41,700	—	—	—	41,700
Share issue expenses	(2,336)	—	—	—	(2,336)
Deficit on revaluation of non-trading securities	—	—	(137,751)	—	(137,751)
Investment revaluation reserve transferred to the profit and loss account upon impairment of non-trading securities	—	—	85,327	—	85,327
Loss for the period	—	—	—	(454,139)	(454,139)
At 31 December 2002	<u>621,817</u>	<u>1,899</u>	<u>(101,638)</u>	<u>(767,426)</u>	<u>(245,348)</u>

The Company had no reserves available for distribution at 31 December 2002 under Section 79B of the Companies Ordinance (30 June 2001: Nil).

NOTES TO THE ACCOUNTS

33. 5% GUARANTEED CONVERTIBLE NOTES

On 28 August 2002, SIIS Treasury Limited, a wholly owned subsidiary of the Company, issued HK\$156,400,000 5% guaranteed convertible notes due in August 2005 (the "Notes"). The Notes each bear a fixed interest of 5% per annum and will mature on 29 August 2005. The Notes carry a right to convert at any time from 28 August 2002 to 29 August 2005 (both days inclusive) into ordinary shares of the Company at an initial conversion price of HK\$0.31 per share (subject to adjustment).

34. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16% (2001: 16%).

The movement on the deferred tax liability account is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1 July 2001 / 1 July 2000	—	—
Exchange difference	5	—
Transfer from the profit and loss account (note 6)	174	—
Disposal of subsidiary	(179)	—
	<hr/>	<hr/>
At 31 December 2002 / At 30 June 2001	—	—
	<hr/> <hr/>	<hr/> <hr/>

The revaluation of the Group's investment properties does not constitute a timing difference and consequently, deferred tax thereon has not been quantified.

35. CONTINGENT LIABILITIES

	Company	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Guarantee of banking facilities granted to subsidiaries	2,536	18,000
	<hr/> <hr/>	<hr/> <hr/>

In addition, as disclosed in note 37 (j) below, the Company provided guarantees to the Monetary Authority of Singapore in respect of the obligations and liabilities of SBI E2-Capital Pte Ltd, of which the Group has 28.56% equity interest.

NOTES TO THE ACCOUNTS

36. COMMITMENTS

(a) Capital commitments

	Group and Company	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Contracted but not provided for		
- in respect of a capital contribution to form a joint venture in the PRC (<i>note 40 (a)</i>)	7,800	—
- in respect of leasehold improvement	2,000	—
	9,800	—

(b) Operating leases

At 31 December 2002, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	31 December 2002	30 June 2001
	HK\$'000	HK\$'000
Not later than one year	6,526	5,332
Later than one year and not later than five years	8,879	3,878
	15,405	9,210

NOTES TO THE ACCOUNTS

37. RELATED PARTY TRANSACTIONS

Related parties refer to E2-Capital (Holdings) Limited (“E2-Capital”) and its subsidiaries (collectively the “E2-Capital Group”), Softbank China Venture Investments Limited (“SBCVI”), Group companies in Japan as disclosed in note 29, 30(b) and 30(c), Mr Li Shui, Lai Fai International Holdings Limited (“Lai Fai”) and a minority shareholder of a subsidiary. E2-Capital is a company incorporated in Bermuda and listed on the Hong Kong Stock Exchange. The E2-Capital Group beneficially owns 49% equity interest in SBI E2-Capital Limited, a subsidiary of the Company. In addition, an executive director of the Company, Mr Wong Sin Just, is also an executive director and a substantial shareholder of E2-Capital. SBCVI is a company incorporated in Hong Kong and a subsidiary of the Company’s ultimate holding company, SOFTBANK CORP. Mr Wong Sin Just, a director of the Company, is also a director of SBCVI. Mr Li Shui, an ex-director of the Company (resigned on 16 April 2003), is also a director and a substantial shareholder of Lai Fai.

During the period the Group undertook the following significant related party transactions, in the normal course of business:

	Note	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000
Management and consultancy fee income	(a)		
- E2-Capital Group		552	240
- SBCVI		2,431	—
Marketing service fee income	(b)		
- E2-Capital Group		953	—
- Lai Fai		171	—
Advisory fee income	(c)		
- E2-Capital		—	3,960
- Lai Fai		400	—
- Mr Li Shui		1,269	—
Back office expenses	(d)	(8,902)	(3,395)
Rental expenses	(e)	(3,563)	(891)
Interest expenses to E2-Capital Group	(f)	(149)	(573)
Interest expenses to an intermediate holding company, a fellow subsidiary, and a substantial shareholder	(g)	(2,118)	—

37. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (a) The Group received a fixed monthly management fee income from E2-Capital Group for the latter's sharing of the Group's office space and other related facilities. This arrangement had been terminated in January 2002. The Group also received a fixed monthly management and consultancy fee income from SBCVI including the use of the portions of the Group's office and shared facilities, the provision of service for computer and network operation and maintenance, the provision of management consultancy service, technical consultancy and management service, legal advisory and company secretarial service and human resources and administrative services in accordance with agreements entered into with both parties.
- (b) The Group received service income from E2-Capital Group for providing marketing, technology solutions and consulting services at rates agreed in accordance with an agreement entered into by both parties. The Group also received service income from Lai Fai for providing marketing and public relation services at rates agreed in accordance with an agreement entered into by both parties.
- (c) Upon completion of the acquisition of SBI E2-Capital Limited, the Group received advisory fee from E2-Capital Group for advisory service provided at rates agreed in accordance with an agreement entered into by both parties in January 2001.

During the eighteen month period ended 31 December 2002, the Group received advisory fee from Mr Li Shui, an ex-director of the Company (resigned on 16 April 2003), and Lai Fai for advisory service provided at rates agreed in accordance with the agreements entered into by the parties.

- (d) The Group reimbursed E2-Capital Group for back office support service provided, including company secretarial and compliance services, financial and treasury management, human resources and administrative services, corporate communications and information technology services. The reimbursement was calculated based on an agreed percentage of the actual costs incurred by E2-Capital Group in accordance with an agreement entered into by both parties. This arrangement had been terminated in April 2002. Subsequent to the termination of the agreement, E2-Capital Group had charged the Group a total of HK\$1,672,000 during the period for sharing half of the back office services incurred by E2-Capital Group. These back office expenses have been included in the Group's profit and loss account based on their nature.
- (e) The Group reimbursed E2-Capital Group for rental expenses incurred by the latter on the office premises occupied by the Group in accordance with an agreement entered into by both parties. This arrangement had been terminated in April 2002.
- (f) The Group paid interest expenses at Hong Kong dollar prime rate plus 1% per annum on the amount due to E2-Capital Group (note 22). The amount has been fully repaid as at 30 June 2002.
- (g) The Group paid interest expenses at 2.375% per annum on the loans from SBF, SB Titus Corporation and Softbank Investment Corporation (notes 29, 30(b) and 30(c)).

NOTES TO THE ACCOUNTS

37. RELATED PARTY TRANSACTIONS (continued)

- (h) On 18 December 2001, the Company entered into a sale and purchase agreement with E2-Capital in relation to the acquisition by the Company of E2-Capital's 100% equity interest in ebizal (Holdings) Limited (formerly known as ebizal Investments Limited) ("ebizal Holdings"), a wholly-owned subsidiary of E2-Capital, for a consideration of approximately HK\$68.1 million, comprising approximately HK\$38.1 million for the acquisition of the technology and communication consulting businesses operated by ebizal Holdings' subsidiaries and HK\$30.0 million for the acquisition of the financial assets held by ebizal Holdings' subsidiaries. The total consideration of approximately HK\$68.1 million is satisfied as to (i) approximately HK\$51.9 million by way of disposal by the Company to E2-Capital of its entire interests in four wholly owned subsidiaries, namely Cheung Wah Ho Dyestuffs Company Limited, Lancerwide Company Limited, Full Success Investments Limited and Lucky Happy Development Limited, the principal businesses of which comprise the distribution of dyestuffs and the holding of two properties in Hong Kong, and the assignment of the shareholder's loans by the Company to E2-Capital; and (ii) a sum of approximately HK\$16.2 million in cash. The transactions have been completed on 24 January 2002.
- (i) On 27 March 2002, the Company entered into a sale and purchase agreement with Mr Li Shui, an ex-director of the Company (resigned on 16 April 2003) in relation to the acquisition of 13.7% equity interest in Lai Fai International (BVI) Limited (formerly Infogold Assets Limited) at a consideration of JPY150,365,857 (equivalent to approximately HK\$8.8 million).
- (j) Each of the Company and E2-Capital has agreed to, amongst other things, provide to the Monetary Authority of Singapore ("MAS") the guarantees, as required under the MAS investment adviser licence and the MAS dealer's licence, pursuant to which each of the Company and E2-Capital undertakes to maintain SBI E2-Capital Pte Ltd in a sound position and pay and settle all obligations and liabilities of SBI E2-Capital Pte Ltd arising during the existence of the guarantees. The Company and E2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of SBI E2-Capital Pte Ltd should be determined by reference to their respective shareholdings in SBI E2-Capital Limited. Accordingly, the Company has agreed to indemnify E2-Capital for 51% of any claim under the guarantees given to the MAS by E2-Capital and E2-Capital has agreed to indemnify the Company for 49% of any claim under the guarantees given to the MAS by the Company.
- (k) Total banking facilities of the Group guaranteed by E2-Capital Group as at 31 December 2002 amounted to HK\$255 million (30 June 2001: HK\$266 million).
- (l) For the purpose of the Group's banking facilities with Standard Chartered Bank, a letter of undertaking was issued by E2-Capital Group which undertakes to maintain the minimum networth of no less than HK\$300 million at all times for the accounts of SBI E2-Capital Commodities Limited, SBI E2-Capital Brokerage Limited and SBI E2-Capital Securities Limited, subsidiaries of the Group.

37. RELATED PARTY TRANSACTIONS (continued)

- (m) A loan receivable from a third party of HK\$6.24 million of the Group was assigned to E2-Capital Group in December 2001. As a result of this assignment, the provision for this loan receivable was written back during the current period.
- (n) In accordance with a share sale agreement dated 11 January 2002, the 40% interest in Software Gateway Limited held by a minority shareholder was pledged to the Company for a duration of three years from 11 January 2002 ("Pledged Shares"). In addition, the Company has been granted a call option to purchase the Pledged Shares from the minority shareholder. On the other hand, the Company has granted to the minority shareholder a put option to sell the Pledged Shares to the Company. These options are exercisable in part or in full over a period of three years from 11 January 2002.
- (o) On 29 August 2002, the Company entered into a tenancy agreement with Fung Choi Properties Limited ("Fung Choi"), which is 60% indirectly owned by Mr Yu Kam Kee, Lawrence who is an executive director of the Company, whereby the Company agreed to lease from Fung Choi the premises as its headquarter office for a term of three years at a monthly rental of HK\$156,255 commencing from 1 January 2003 to 31 December 2005.
- (p) During the eighteen month period ended 31 December 2002, the Company paid HK\$6,949,000 advisory fee to SBI E2-Capital Group, 51% owned by the Group, at rates agreed in accordance with the agreements entered into by both parties.

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Effects of acquisition and disposal of subsidiaries

(a) Disposals

In July 2001, the Group disposed of one property holding company for a consideration of approximately HK\$4 million.

On 18 December 2001, the Group entered into a sale and purchase agreement with E2-Capital (Holdings) Limited for the sale of its entire equity interests in certain subsidiaries comprising the dyestuffs distribution segment for a consideration of HK\$51.9 million. The sale was completed on 24 January 2002, and the proceeds had been utilised as part of purchase consideration of ebizal (Holdings) Limited.

NOTES TO THE ACCOUNTS

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

(b) Acquisitions

In January 2002, the Group acquired 60% interest in Software Gateway Limited (which holds 99% equity interest of Electrum Information Technology Co., Ltd. ("Electrum")) for a consideration of HK\$18 million. Electrum is primarily engaged in the development of a comprehensive range of customised web-based and software solutions for business and public sectors. As disclosed in note 37(h), the Group also acquired 100% interest in ebizal (Holdings) Limited for a consideration of approximately HK\$68.1 million. The acquired businesses contributed turnover of approximately HK\$56.8 million and net operating profit (including the attributable interest income of approximately HK\$0.5 million but before a provision for impairment loss of HK\$25.4 million in respect of its non-trading securities and the amortisation and impairment of the attributable goodwill which amounted to HK\$1.9 million and HK\$39.2 million respectively) of approximately HK\$1 million to the Group during the current period.

	Acquisition		Disposal	
	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000	18-months ended 31 December 2002 HK\$'000	12-months ended 30 June 2001 HK\$'000
Net assets acquired/ disposed of				
Fixed assets	820	2,902	(42,187)	(2,112)
Associated company	—	—	—	(1)
Other assets	—	4,001	—	—
Non-trading securities	46,800	19,475	—	—
Loans receivable	—	6,170	—	—
Inventory	6,051	—	(8,574)	(4,192)
Accounts and other receivables	20,465	217,661	(8,185)	(7,724)
Trading investments	—	147,080	—	(21,752)
Cash and bank balances	2,659	56,207	(5,263)	(1,045)
Trade and other payables	(26,177)	(125,961)	8,037	7,296
Options written	—	(113,626)	—	—
Amounts due to a related company	(998)	(39,497)	—	—
Bank loans	—	—	626	1,094
Taxation	(190)	(5,793)	—	142
Minority interests	(3,837)	(75,276)	—	—
Net identifiable assets and liabilities	45,593	93,343	(55,546)	(28,294)
Goodwill	41,034	246,698	—	—
Exchange and capital reserves	—	—	—	16,373
Gain on disposal	—	—	(710)	(16,373)
	86,627	340,041	(56,256)	(28,294)

NOTES TO THE ACCOUNTS

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

(b) Acquisitions (continued)

	Acquisition		Disposal	
	18-months ended	12-months ended	18-months ended	12-months ended
	31 December 2002	30 June 2001	31 December 2002	30 June 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total amounts paid/ (received), satisfied by:				
Allotment of shares	—	207,975	—	—
Accounts payable to a related company	16,200	—	—	—
Cash	70,427	132,066	(56,256)	(28,294)
	<u>86,627</u>	<u>340,041</u>	<u>(56,256)</u>	<u>(28,294)</u>
Cash paid/(received)	70,427	132,066	(56,256)	(28,294)
Less: cash and cash equivalents of subsidiaries (acquired)/ disposed of	(2,659)	(56,207)	5,263	(49)
Net cash outflow/ (inflow) in respect of the purchase/disposal of subsidiaries	<u>67,768</u>	<u>75,859</u>	<u>(50,993)</u>	<u>(28,343)</u>

NOTES TO THE ACCOUNTS

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

(c) Cash and bank balances disposed of from disposal of subsidiaries

On 18 December 2002, a corporate restructure took place where SBI E2-Capital Holdings Pte Ltd, a 56% owned subsidiary of SBI E2-Capital Limited, was disposed by SBI E2-Capital Limited, a 51% owned subsidiary of the Company, to the Company by dividend paid in specie. Upon completion of the restructuring, the Company directly owns 28.56% equity interest, which was subsequently reduced to 18.56% in March 2003 (note 40(b)), in SBI E2-Capital Holdings Pte Ltd, and accordingly the Group ceased to consolidate the accounts of SBI E2-Capital Holdings Pte Ltd since 18 December 2002.

	18-months ended 31 December 2002 HK\$'000
Net assets disposed of:	
Fixed assets	(1,006)
Accounts and other receivables	(7,593)
Cash and bank balances	(26,540)
Trade and other payables	7,855
Taxation	759
Deferred taxation	179
Minority interests	11,563
Dividend payable	1,282
	<u>(13,501)</u>
Net cash outflow from disposal of subsidiaries	
– cash and bank balances disposed of from ceasing to consolidate the accounts of SBI E2-Capital Holdings Pte Ltd	<u>26,540</u>

NOTES TO THE ACCOUNTS

39. PRINCIPAL SUBSIDIARIES

The following list contains particulars of subsidiaries of the Group which in the opinion of the directors, materially affect the results and assets of the Group. To give details of other subsidiaries would, in the opinion of directors, result in particulars of excessive length.

Name of company	Place of incorporation/ registration and operations	Issued/ registered share capital/paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cheung Wah Properties Limited	Hong Kong	HK\$2	100%	—	Property investment
China Trade Investment Limited	Hong Kong	HK\$2	100%	—	Property investment
Dragon Lion Limited	Hong Kong	HK\$2	100%	—	Investment holding
Eastern Capital Inc.	British Virgin Islands	US\$39,999	—	50.0038%	Investment holding
ebizal (Holdings) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Ebizal Marketing (Holdings) Limited	British Virgin Islands	US\$1	—	100%	Investment holding
Ebizal Marketing (Hong Kong) Limited	Hong Kong	HK\$2	—	100%	Provision of public relations and marketing services
Ebizal Net - Trans Limited	Hong Kong	HK\$2	—	100%	Provision of consulting services
Electrum Information Technology Company, Limited [#]	PRC	Paid up capital RMB2,000,000	—	59.4%	Provision of web-based and software solutions
Fine Score Investments Limited	Hong Kong	HK\$2	100%	—	Property investment
Foshan Chande Knitting Enterprise Company, Limited [#]	PRC	Paid up capital US\$7,100,000	—	51%	Fabric dyeing, knitting and garment manufacturing
Gesway Investment Limited	Hong Kong	HK\$2	100%	—	Investment holding

NOTES TO THE ACCOUNTS

39. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Issued/ registered share capital/paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Layet Company, Limited	Hong Kong	Ordinary HK\$1,000 Deferred HK\$10,000 (note a)	100%	—	Property investment
Maniway Properties Limited	Hong Kong	HK\$2	100%	—	Property holding
Nicken Limited	Hong Kong	HK\$2	100%	—	Property investment
Peach Garden Country Club (Nanhai) Limited [#]	PRC	Paid up capital US\$4,368,000	—	57.89%	Country club operation
Prime Success Development Limited	Hong Kong	HK\$2	100%	—	Property investment
Rearden Limited	Hong Kong	HK\$10,000	100%	—	Property investment
SBI Capital Offshore (BVI) Limited	British Virgin Islands	US\$1	—	51%	Securities trading
SBI E2-Capital Asia (BVI) Limited	British Virgin Islands	US\$1	—	51%	Investment holding
SBI E2-Capital Brokerage Limited	Hong Kong	HK\$10,000,000	—	51%	Securities broking
SBI E2-Capital Commodities Limited	Hong Kong	HK\$5,000,000	—	51%	Broker of commodities, options and futures contracts
SBI E2-Capital Far East Limited	British Virgin Islands	US\$1	—	51%	Provision of financial consultancy services
SBI E2-Capital (HK) Limited	Hong Kong	HK\$10,000,000	—	51%	Provision of corporate finance services
SBI E2-Capital Limited	Cayman Islands	HK\$300	—	51%	Investment holding
SBI E2-Capital Research Limited	Hong Kong	HK\$2	—	51%	Research of securities market

NOTES TO THE ACCOUNTS

39. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Issued/ registered share capital/paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
SBI E2-Capital Securities Limited	Hong Kong	HK\$50,000,000	—	51%	Securities broking and provision of margin financing
SBI E2-Capital (USA) Inc.	British Virgin Islands	US\$1	—	51%	Provision of corporate finance services
SBI Strategic Holdings Limited	British Virgin Islands	US\$1	100%	—	Investment holding
SBIIS Capital Holdings Limited	British Virgin Islands	US\$1	100%	—	Investment holding
SIIS (Nominees) Limited	Hong Kong	HK\$2	100%	—	Provision of nominee services
SIIS Treasury Limited	British Virgin Islands/ Hong Kong	US\$1	100%	—	Provision of financial services
SIIS-UCM Holdings Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Software Gateway Limited	British Virgin Islands	US\$100	60%	—	Investment holding
Sumoton Investment Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Sun-Tech Business Systems Limited	Hong Kong	HK\$1,200,000	—	20.4%	Provision of computer system integration services and investment holding
Tak Wah Ho Company Limited (formerly Tak Wah Ho Dyestuffs Company, Limited)	Hong Kong	Ordinary HK\$1,000 Deferred HK\$1,200,100 (note a)	100%	—	Property holding
Woodhill Investments Limited	Hong Kong	HK\$2	—	51%	Securities trading
Year Ford Industries Limited	Hong Kong	HK\$1,000	100%	—	Property investment

Subsidiaries not audited by PricewaterhouseCoopers, Hong Kong

NOTES TO THE ACCOUNTS

39. PRINCIPAL SUBSIDIARIES (continued)

Notes:

- (a) The deferred shares carry no rights to dividends, to receive notice of or attend or vote at any general meeting of the respective subsidiaries and the right to participation in distribution on winding up is also restricted.
- (b) Unless otherwise stated, the principal place of operation of each company is the same as its place of incorporation.

40. SUBSEQUENT EVENTS

- (a) In September 2002, the Group signed a joint venture agreement with Shenzhen Capital Group Company Limited for the formation of Softbank SZVC Venture Capital Management Company Limited (the "JV"). The Group has made a capital contribution of USD1 million (equivalent to HK\$7.8 million) in respect of the formation of the JV in February 2003.
- (b) On 3 March 2003, agreements were entered into between, inter alia, Westcomb Profits Limited ("Westcomb"), Mr KB Fung and the Company whereby Westcomb and Mr KB Fung agreed to purchase from the Company approximately 7% and 3% equity interests in the issued share capital of SBI E2-Capital Holdings Pte Ltd at a consideration of SGD1.4 million and SGD0.60 million respectively (equivalent to approximately HK\$6.27 million and HK\$2.69 million respectively). The agreements were completed on 12 March 2003 and 14 March 2003 respectively. The Company recognised a capital gain of approximately HK\$6.5 million upon the completion of the transaction. Details of the transactions have been set out in the announcement of the Company dated 6 March 2003.

41. ULTIMATE HOLDING COMPANY

The directors regard SOFTBANK CORP., a company incorporated and listed in Japan, as being the ultimate holding company of the Company.

42. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16 April 2003.