

# NOTES TO THE ACCOUNTS

## 1. 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 year, 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 January 2003:

SSAP 11 (revised)	:	Foreign currency translation
SSAP 12 (revised)	:	Income taxes
SSAP 34 (revised)	:	Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below. The adoption of these new and revised SSAPs has not had a material financial impact on the preparation of these accounts, although some comparative disclosures have been amended or extended.

### (b) Consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 31 December 2003.

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 year/period 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 and any related accumulated foreign currency translation reserve.

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

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Consolidation (continued)

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 year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment loss) on acquisition.

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.

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.

#### (d) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment loss) on acquisition.

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

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) 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 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.

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.

### (f) 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.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (g) Fixed assets

Fixed assets other than investment properties (note 1(f)) 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%
Computer equipment	20% - 30%
Motor vehicles	20% - 25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised 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.

### (h) 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.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Investments in securities

Investments 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 or 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.

#### *(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.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) 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.

### (k) 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.

### (l) Income taxes

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in period, or periods, in which the tax loss or credit can be utilised.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (I) Income taxes (continued)

#### (iii) (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries, associated companies and joint ventures to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

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

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

### 1. 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.



# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (q) Translation of foreign currencies

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

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

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

### (r) Employee benefits

- (i) Salaries, annual bonuses and annual leave entitlements, are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, accruals are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.
- (ii) Contributions to the defined contribution retirement scheme (“ORSO Scheme”) and the Mandatory Provident Fund 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. Forfeited contributions by those employees who leave the ORSO Schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions.

The Group also participates in the employee pension schemes of the respective municipal government in various places in the 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 these PRC contribution schemes are expensed as incurred.

- (iii) The Group also operates share option schemes where directors or employees are granted with options to acquire shares of the Company at specified exercise price. No compensation costs are recognised in the profit and loss account. Where the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (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.

In respect of geographical segment reporting, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

#### (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, derivative 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

### 2. 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 and country club operation. Revenues recognised during the year are as follows:

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
<b>Turnover</b>		
Sales of goods	57,522	85,270
Manufacturing processing services	14,760	25,759
Country club services	5,892	10,949
Brokerage commission from dealing in securities, equity options, futures and options contracts	28,960	39,430
Proceeds from sale of trading investments	—	10,963
Corporate finance and advisory fee income	4,491	72,879
Commission from new issues and underwriting activities	32,154	15,093
Fund and other management fee income	2,683	5,440
Gross rental income from investment properties	2,914	6,197
Service income from provision of public relation services	7,703	9,495
Service income from provision of technology consulting and development services and related distribution income	12,173	42,543
Interest income derived from financial services	1,354	8,988
Dividend income from non-trading securities	991	1,290
	<u>171,597</u>	<u>334,296</u>
<b>Other revenue</b>		
Interest income	941	1,845
	<u>941</u>	<u>1,845</u>
<b>Total revenues</b>	<u><u>172,538</u></u>	<u><u>336,141</u></u>



## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

#### Business segments

The Group is currently organised into five main business segments:

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

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.

The Group's equity interest in a number of companies engaged in the provision of financial services (collectively, the "SBI E2-Capital Group") has been reduced from 51% to 49% on 17 December 2003 and a loss on disposal of HK\$438,000 was recognised. Accordingly the Group ceased consolidating the accounts of SBI E2-Capital Group as a subsidiary upon the said reduction of equity interest and the SBI E2-Capital Group has since been equity accounted for in the consolidated accounts.

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

Segment information about these businesses is presented below:

#### Profit And Loss Account

For the year ended 31 December 2003

	Investment holding HK\$'000	Financial services HK\$'000	Consulting, marketing & technology services HK\$'000	Garment manufacturing HK\$'000	Property holding & others HK\$'000	Group total HK\$'000
Turnover						
Segment total	6,497	68,791	24,885	67,843	8,801	176,817
Inter-segment	(3,940)	(1,357)	(438)	—	—	(5,735)
Group total	2,557	67,434	24,447	67,843	8,801	171,082
Dividend income	515					515
						171,597
Segment results						
Segment total	(30,156)	(190)	1,680	1,675	9,981	(17,010)
Inter-segment	2,012	1,356	(624)	—	(2,744)	—
Loss on disposal of subsidiaries	(432)	—	—	—	—	(432)
Loss on disposal of non-trading securities	(4,047)	—	—	—	—	(4,047)
Provision for impairment of non-trading securities	(50,818)	(4,251)	(3,800)	—	—	(58,869)
Provision for investment deposit	(30,000)	—	—	—	—	(30,000)
Amortisation of goodwill in respect of subsidiary	(17)	—	—	—	—	(17)
Group total	(113,458)	(3,085)	(2,744)	1,675	7,237	(110,375)
Dividend income	515					515
Unallocated income						941
Amortisation of goodwill in respect of associated company			(496)			(496)
Finance costs						(8,612)
Share of results of associated companies		1,828	(2,057)			(229)
Share of results of jointly controlled entities	(277)					(277)
Loss before taxation						(118,533)
Taxation						(498)
Minority interests						607
Loss attributable to shareholders						(118,424)

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

#### Balance Sheet

As at 31 December 2003

	Investment holding HK\$'000	Financial services HK\$'000	Consulting, marketing & technology services HK\$'000	Garment manufacturing HK\$'000	Property holding & others HK\$'000	Group total HK\$'000
<b>ASSETS</b>						
Segment assets	138,872	—	29,566	55,140	89,055	312,633
Interests in associated companies	—	31,586	21,698	—	2	53,286
Interests in jointly controlled entities	8,283	—	—	—	—	8,283
Unallocated assets	—	—	—	—	—	302
Group total						<u>374,504</u>
<b>LIABILITIES</b>						
Segment liabilities	120,024	—	5,379	19,576	15,815	160,794
Unallocated liabilities	—	—	—	—	—	—
Group total						<u>160,794</u>

#### Other information

For the year ended 31 December 2003

	Investment holding HK\$'000	Financial services HK\$'000	Consulting, marketing & technology services HK\$'000	Garment manufacturing HK\$'000	Property holding & others HK\$'000	Group total HK\$'000
Capital expenditure	1,815	399	485	3,336	1,234	7,269
Depreciation	873	1,099	384	2,915	1,610	6,881
Provision for impairment of non-trading securities recognised in profit and loss account	50,818	4,251	3,800	—	—	58,869
Provision for investment deposit	30,000	—	—	—	—	30,000
Surplus on revaluation of investment properties recognised in profit and loss account	—	—	—	—	5,782	5,782

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

#### Profit And Loss Account

For 18-months ended 31 December 2002

	Investment holding HK\$'000	Financial services HK\$'000	Consulting, marketing & technology services HK\$'000	Garment manufacturing HK\$'000	Property holding & others HK\$'000	Dyestuffs distribution (note) HK\$'000	Group total 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

### 2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

#### Balance Sheet

As at 31 December 2002

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

#### Other information

For 18-months ended 31 December 2002

	Investment holding HK\$'000	Financial services HK\$'000	Consulting, marketing & technology services HK\$'000	Garment manufacturing HK\$'000	Property holding & others HK\$'000	Dyestuffs distribution HK\$'000	Group total 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

### 2. 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 year ended 31 December 2003*

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Group total <i>HK\$'000</i>
Turnover	85,503	78,328	7,766	171,597
Other revenue	824	117	—	941
External revenue	<u>86,327</u>	<u>78,445</u>	<u>7,766</u>	<u>172,538</u>
Segment assets	<u>266,681</u>	<u>107,823</u>	<u>—</u>	<u>374,504</u>
Capital expenditure incurred during the year	<u>2,266</u>	<u>5,003</u>	<u>—</u>	<u>7,269</u>

*For 18-months ended 31 December 2002*

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Group total <i>HK\$'000</i>
Turnover	171,242	103,734	59,320	334,296
Other revenue	1,672	173	—	1,845
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>

## NOTES TO THE ACCOUNTS

### 3. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Crediting :		
Write back of provision for doubtful debts/loans receivable	1,702	9,032
Net realised and unrealised gain on trading investments	498	—
Gain on disposal of investment properties	1,242	—
	<u>          </u>	<u>          </u>
Charging :		
Loss on disposal of fixed assets	543	2,862
Outgoings in respect of investment properties	338	480
Auditors' remuneration	2,685	3,972
Staff costs		
- Retirement benefit costs	1,840	5,439
- Provision for long service payment	290	27
- Salaries, wages & other benefits	62,096	110,916
	64,226	116,382
Operating lease rentals in respect of land and buildings	6,310	16,404
Depreciation on owned fixed assets	6,881	13,969
Cost of goods sold	68,589	94,065
Net realised and unrealised losses on trading investments	—	4,802
Provision for doubtful debts and loans receivable	4,951	13,541
Provision for slow moving inventories	—	101
Net exchange loss	8,958	11,719
Amortisation of goodwill in respect of		
- the acquisition of subsidiaries	17	20,385
- the acquisition of an associated company	496	165
	<u>          </u>	<u>          </u>

The retirement benefit costs charged to the profit and loss represent gross contributions payable by the Group of HK\$2,027,000 (18-months ended 31 December 2002:HK\$5,535,000) less forfeited voluntary contributions utilised of HK\$187,000 (18-months ended 31 December 2002:HK\$96,000). As at 31 December 2003, there are no forfeited voluntary contributions available to reduce the contributions payable by the Group in the future (31 December 2002:HK\$187,000).

## NOTES TO THE ACCOUNTS

### 4. FINANCE COSTS

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	611	5,000
Interest on client accounts and other loans wholly repayable within five years	16	432
Interest on loans from a former intermediate holding company, a former fellow subsidiary and a former substantial shareholder wholly repayable within five years	2,205	2,118
Interest on 5% Guaranteed Convertible Notes due 2005	5,780	2,700
	<u>8,612</u>	<u>10,250</u>

### 5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (18-months ended 31 December 2002: 16%) on the estimated assessable profits for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of taxation prevailing in the countries in which the Group operates.

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

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Company and subsidiaries :		
Hong Kong profits tax	450	1,210
PRC taxation	567	915
Overseas taxation	—	4,188
Overprovision in prior period	(1,030)	(1,656)
Deferred taxation - Overseas	—	174
Deferred taxation - Hong Kong	103	—
	<u>90</u>	<u>4,831</u>
Share of taxation attributable to:		
Associated companies	408	—
	<u>498</u>	<u>4,831</u>

## NOTES TO THE ACCOUNTS

### 5. TAXATION (continued)

Reconciliation between income tax expense and accounting loss at applicable tax rates

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Loss before taxation	<u>(118,533)</u>	<u>(495,151)</u>
Tax credit at the domestic income tax rate of 17.5% (2002:16%)	(20,743)	(79,224)
Tax effect of unused tax losses not recognised	2,443	6,616
Tax effect of utilisation of tax losses not previously recognised	(1,668)	—
Tax effect of non-taxable revenue	(1,558)	(998)
Tax effect of non-deductible expenses	22,795	78,976
Effect of different tax rates of subsidiaries operating in other jurisdictions	259	1,117
Overprovision in prior periods	<u>(1,030)</u>	<u>(1,656)</u>
Tax charge	<u>498</u>	<u>4,831</u>

## NOTES TO THE ACCOUNTS

### 6. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments are analysed as follows:

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Fees	185	165
Salaries and other allowances	5,715	9,861
Benefits from shares issued under a share option scheme	—	150
Bonuses	2,783	493
Pensions	37	152
	<u>8,720</u>	<u>10,821</u>

Fees to independent non-executive directors amounted to HK\$152,000 (18-months ended 31 December 2002: HK\$165,000) for the year.

The directors' emoluments fell within the following bands:

Emoluments band	Number of directors	
	Year ended 31 December 2003	18-months ended 31 December 2002
HK\$ Nil - HK\$1,000,000	10	12
HK\$1,000,001 - HK\$1,500,000	1	—
HK\$1,500,001 - HK\$2,000,000	1	3
HK\$2,000,001 - HK\$2,500,000	1	—
HK\$2,500,001 - HK\$3,000,000	1	—
HK\$4,500,001 - HK\$5,000,000	—	1
	<u>14</u>	<u>16</u>

During the year, 167,264,000 share options were granted to the directors under the share option scheme approved by the shareholders at the annual general meeting held on 30 October 2001. Each of the options entitles the holder to subscribe for one ordinary share of HK\$0.10 each in the Company at an exercise price of HK\$0.10 each at any time during the period from 3 November 2003 to 2 November 2013. During the year, 89,742,000 share options held by the ex-directors lapsed upon their resignation and no share option was exercised by any of the directors.

## NOTES TO THE ACCOUNTS

### 6. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

#### (b) Employees' emoluments

The five highest paid individuals included two directors (18-months ended 31 December 2002: one), details of whose emoluments are included in the amounts disclosed in (a) above. The emoluments of the remaining three (18-months ended 31 December 2002: four) highest paid individuals are as follows:

	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Salaries and other allowances	2,795	9,469
Bonuses	6,434	—
Pensions	24	102
	<u>9,253</u>	<u>9,571</u>

The employees' emoluments fell within the following bands:

Emoluments band	Number of employees	
	Year ended 31 December 2003	18-months ended 31 December 2002
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$2,000,001 - HK\$2,500,000	—	3
HK\$2,500,001 - HK\$3,000,000	—	1
HK\$3,500,001 - HK\$4,000,000	2	—
	<u>3</u>	<u>4</u>

### 7. DIVIDEND

The Directors have resolved not to pay any dividend in respect of the year ended 31 December 2003 (18-months ended 31 December 2002: nil).

### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the accounts of the Company is HK\$73,497,000 (18-months ended 31 December 2002: HK\$454,139,000).

## NOTES TO THE ACCOUNTS

### 9. LOSS PER SHARE

The loss per share is calculated based on the loss attributable to shareholders of HK\$118,424,000 (18-months ended 31 December 2002: HK\$497,464,000) and on the weighted average number of 2,783,034,712 (18-months ended 31 December 2002: 2,380,208,728) ordinary shares in issue during the year.

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.

### 10. GOODWILL

	Group <i>HK\$ '000</i>
Cost	
At 1 January 2003	287,732
Additions ( <i>note</i> )	4,062
	<hr/>
At 31 December 2003	291,794
	<hr/>
Amortisation and impairment loss	
At 1 January 2003	287,732
Amortisation charge for the year	17
	<hr/>
At 31 December 2003	287,749
	<hr/>
Net book value	
At 31 December 2003	4,045
	<hr/> <hr/>
At 31 December 2002	—
	<hr/> <hr/>

*Note:* The goodwill arose from the acquisition of a 100% interest in SIIS Investment Management Limited (formerly Softbank China Venture Investments Limited).

## NOTES TO THE ACCOUNTS

### 11. FIXED ASSETS

#### Group

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK'000
Cost or valuation								
At 1 January 2003	39,528	78,765	3,448	31,968	18,944	3,243	5,763	181,659
Additions	—	1,192	1,491	2,987	595	344	660	7,269
Acquisition of subsidiaries	—	—	246	—	495	—	—	741
Disposal of subsidiaries	—	—	(1,277)	—	(3,421)	(2,361)	—	(7,059)
Disposals	(4,480)	—	(1,844)	(105)	(309)	(123)	(131)	(6,992)
Revaluation	5,782	—	—	—	—	—	—	5,782
At 31 December 2003	<u>40,830</u>	<u>79,957</u>	<u>2,064</u>	<u>34,850</u>	<u>16,304</u>	<u>1,103</u>	<u>6,292</u>	<u>181,400</u>
Accumulated depreciation								
At 1 January 2003	—	18,159	1,773	28,911	13,795	2,160	2,957	67,755
Charge for the year	—	2,311	1,020	1,256	1,360	424	510	6,881
Acquisition of subsidiaries	—	—	245	—	478	—	—	723
Disposal of subsidiaries	—	—	(462)	—	(2,297)	(1,623)	—	(4,382)
Disposals	—	—	(1,506)	(105)	(145)	(60)	(88)	(1,904)
At 31 December 2003	<u>—</u>	<u>20,470</u>	<u>1,070</u>	<u>30,062</u>	<u>13,191</u>	<u>901</u>	<u>3,379</u>	<u>69,073</u>
Net book value								
At 31 December 2003	<u>40,830</u>	<u>59,487</u>	<u>994</u>	<u>4,788</u>	<u>3,113</u>	<u>202</u>	<u>2,913</u>	<u>112,327</u>
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>
The analysis of cost or valuation of the above assets is as follows:								
At cost	—	79,957	2,064	34,850	16,304	1,103	6,292	140,570
At professional valuation - 2003	40,830	—	—	—	—	—	—	40,830
	<u>40,830</u>	<u>79,957</u>	<u>2,064</u>	<u>34,850</u>	<u>16,304</u>	<u>1,103</u>	<u>6,292</u>	<u>181,400</u>

The investment properties were revalued on an open market value basis as at 31 December 2003 by an independent valuer, Colliers International (Hong Kong) Limited, Chartered Surveyors.



## NOTES TO THE ACCOUNTS

### 11. FIXED ASSETS (continued)

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Held in Hong Kong on:		
Leases of over 50 years	—	4,480
Leases between 10 to 50 years	41,063	35,880
Held outside Hong Kong on :		
Leases between 10 to 50 years	59,254	59,774
	<u>100,317</u>	<u>100,134</u>

At 31 December 2003, there were no investment properties pledged to secure banking facilities granted to the Group (31 December 2002: HK\$4,480,000). Certain other properties with a total net book value of HK\$12,112,000 (31 December 2002: HK\$12,706,000) of the Group were pledged to secure banking facilities granted to the Group.

#### Company

Company	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 January 2003	—	1,329	662	220	2,211
Additions	1,491	276	48	—	1,815
Disposals	—	(16)	(45)	—	(61)
At 31 December 2003	<u>1,491</u>	<u>1,589</u>	<u>665</u>	<u>220</u>	<u>3,965</u>
Accumulated depreciation					
At 1 January 2003	—	922	644	82	1,648
Charge for the year	497	296	22	55	870
Disposals	—	—	(45)	—	(45)
At 31 December 2003	<u>497</u>	<u>1,218</u>	<u>621</u>	<u>137</u>	<u>2,473</u>
Net book value					
At 31 December 2003	<u>994</u>	<u>371</u>	<u>44</u>	<u>83</u>	<u>1,492</u>
At 31 December 2002	<u>—</u>	<u>407</u>	<u>18</u>	<u>138</u>	<u>563</u>

## NOTES TO THE ACCOUNTS

### 12. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	100,518	122,411
Amounts due from subsidiaries	494,339	572,235
Amounts due to subsidiaries	(11,594)	(25,571)
	<u>583,263</u>	<u>669,075</u>
Less: Provision for diminution in value		
- Unlisted shares, at cost	(93,644)	(94,847)
- Amounts due from subsidiaries	(347,893)	(475,610)
	<u>141,726</u>	<u>98,618</u>

Details of principal subsidiaries are set out in note 35.

### 13. OTHER ASSETS

	Group	
	2003 HK\$'000	2002 HK\$'000
Statutory and other deposits relating to the securities, options and futures contracts dealing businesses	—	3,853
Stock Exchange and Futures Exchange trading rights	—	1
	<u>—</u>	<u>3,854</u>

### 14. INTERESTS IN ASSOCIATED COMPANIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	22,425	22,425
Share of net assets	57,604	14,511	—	—
Goodwill ( <i>note</i> )	9,251	9,747	—	—
Amounts due from associated companies	63	—	—	—
Amounts due to associated companies	(13,632)	—	(13,632)	—
	<u>53,286</u>	<u>24,258</u>	<u>8,793</u>	<u>22,425</u>

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN ASSOCIATED COMPANIES (continued)

*Note:* The movement in goodwill is as follows:

	<i>HK\$'000</i>
<b>Gross amount</b>	
At 1 January 2003 and 31 December 2003	9,912
<b>Amortisation</b>	
At 1 January 2003	165
Amortisation charge for the year	496
At 31 December 2003	661
<b>Carrying amount</b>	
At 31 December 2003	9,251
At 31 December 2002	9,747

Details of the principal associated companies at 31 December 2003 are as follows. To give details of all other associated companies of the Group would, in the opinion of the directors, result in particulars of excessive length.

Name	Place of incorporation and operation	Percentage of equity held by		Principal activities
		Company	Group	
Supresoft Imagis Inc*	British Virgin Islands	27.6%	—	Sale and develop software and hardware products and the provision of data processing service
SBI E2-Capital Limited	Cayman Islands	—	49%	Investment holding
SBI E2-Capital Asia Limited	British Virgin Islands	—	49%	Investment holding
SBI E2-Capital China Group Limited#	British Virgin Islands	—	34.3%	Investment holding
SBI E2-Capital Brokerage Limited#	Hong Kong	—	34.3%	Securities broking
SBI E2-Capital Commodities Limited#	Hong Kong	—	34.3%	Broker of commodities, options and futures contracts

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN ASSOCIATED COMPANIES (continued)

Name	Place of incorporation and operation	Percentage of equity held by		Principal activities
		Company	Group	
SBI E2-Capital (HK) Limited#	Hong Kong	—	34.3%	Provision of corporate finance services
SBI E2-Capital Research Limited#	Hong Kong	—	34.3%	Research of equity market
SBI E2-Capital Securities Limited#	Hong Kong	—	34.3%	Securities broking and provision of margin financing
SBI E2-Capital (USA) Inc.	British Virgin Islands	—	49%	Investment holding
SBI E2-Capital China Holdings Limited#	Hong Kong	—	34.3%	Investment holding and provision of corporate management services
SBI E2-Capital Securities Pte Ltd*	Singapore	—	33.5%	Securities broking

\* Associated company not audited by PricewaterhouseCoopers, Hong Kong

# SBI E2-Capital China Group Limited was incorporated in 2003 and subsequently became the holding company of SBI E2-Capital China Holdings Limited ("SBI China"), an intermediate holding company of SBI E2-Capital Securities Limited, SBI E2-Capital Commodities Limited, SBI E2-Capital Brokerage Limited, SBI E2-Capital (HK) Limited and SBI E2-Capital Research Limited. Following the adoption of the equity compensation scheme as detailed below, the Group's interests in SBI China and these associated companies have been reduced further from 49% to 34.3%

As disclosed in note 2, the Group's equity interest in SBI E2-Capital Limited has been reduced from 51% to 49% on 17 December 2003, and its accounts have since been equity accounted for in the Group's consolidated accounts. The summary of financial information of SBI E2-Capital Limited for the year ended 31 December 2003 is as follows:

Consolidated Profit and Loss Account for the year ended 31 December 2003	<i>HK\$ '000</i>
Turnover	68,314
Loss before taxation	(414)
Consolidated Balance Sheet as at 31 December 2003	<i>HK\$ '000</i>
Total assets	155,789
Total liabilities	63,508

## NOTES TO THE ACCOUNTS

### 14. INTERESTS IN ASSOCIATED COMPANIES (continued)

#### Equity Compensation Scheme

In order to provide an added incentive to eligible employees of SBI E2-Capital Group, SBI China, a former wholly-owned subsidiary of SBI E2-Capital Limited, has adopted an equity compensation scheme (the “Old Scheme”) which allows it to grant units representing interests in SBI China to employees, directors, consultants and/or advisors of SBI E2-Capital Group.

In December 2003, the Old Scheme was terminated by the SBI E2-Capital Group and replaced by a new equity compensation scheme (the “New Scheme”) in order to provide additional performance incentives to the SBI E2-Capital Group’s employees, directors, consultants and advisors (collectively referred to as “Eligible Persons”). Under the New Scheme, the SBI E2-Capital Group has set aside 30% interests in SBI China (the “Interests”) to a newly incorporated vehicle for the purposes of granting the Interests to the Eligible Persons. The vesting of these Interests in the Eligible Persons is generally subject to their fulfilment of a prescribed service period with the SBI E2-Capital Group, although a portion of these Interests vested immediately upon the granting. The New Scheme also provides that, upon ceasing as an Eligible Person, a grantee is required to transfer all of his vested Interests to the SBI E2-Capital Group at a consideration equal to 50% of the latest audited net asset value of those companies underlying such Interests.

As at 31 December 2003, SBI E2-Capital Group has identified the Eligible Persons for granting 29.1% Interests out of the total 30% Interests, and 10.26% Interests vested immediately. Equity compensation expenses of HK\$6,100,000 representing the value of these 10.26% Interests were recognised by the SBI E2-Capital Group for the year ended 31 December 2003.

The remaining Interests to be vested gradually in the Eligible Persons for their completion of every six-month service period, and will vest fully by 31 December 2007.

### 15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	8,300	—	—	—
Share of net assets	8,023	—	—	—
Amount due from a jointly controlled entity	260	—	—	—
	<u>8,283</u>	<u>—</u>	<u>—</u>	<u>—</u>

## NOTES TO THE ACCOUNTS

### 15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Details of the jointly controlled entities at 31 December 2003 are as follows:

Name	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	held by the Company	held by subsidiary	
Softech Investment Management Company Limited*	Hong Kong	HK\$5,020	50%	—	50%	Joint management of The Applied Research Fund established by Hong Kong SAR Government
Softbank SZVC Venture Capital Management Company Limited*	PRC	paid up capital US\$2,000,000	50%	—	50%	Fund management

\* Jointly controlled entities not audited by PricewaterhouseCoopers, Hong Kong

### 16. NON-TRADING SECURITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities, at fair value				
Listed in Hong Kong	37,144	55,151	37,144	33,102
Listed outside Hong Kong	1,568	1,634	—	—
	<u>38,712</u>	<u>56,785</u>	<u>37,144</u>	<u>33,102</u>
Unlisted	61,780	47,201	34,305	38,516
	<u>100,492</u>	<u>103,986</u>	<u>71,449</u>	<u>71,618</u>
Debt securities				
Unlisted convertible debt securities	18,600	23,851	—	—
	<u>119,092</u>	<u>127,837</u>	<u>71,449</u>	<u>71,618</u>
Market value of listed securities				
Listed in Hong Kong	37,144	55,151	37,144	33,102
Listed outside Hong Kong	1,568	1,634	—	—
	<u>38,712</u>	<u>56,785</u>	<u>37,144</u>	<u>33,102</u>

## NOTES TO THE ACCOUNTS

### 16. NON-TRADING SECURITIES (continued)

In accordance with the Group's accounting policies on investments in securities, the directors have reviewed the Group's individual investments at 31 December 2003 in order to determine if their fair values have been impaired. Following the review, the directors concluded that a provision for impairment loss of HK\$58,869,000 should be provided for in the profit and loss account for the year ended 31 December 2003 (18-months ended 31 December 2002: HK\$123,553,000) in respect of its non-trading securities.

### 17. LOANS RECEIVABLE

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Due after one year	—	21,630
Less: Provision	—	(16,515)
	<hr/>	<hr/>
	—	5,115
	<hr/>	<hr/>
Total	—	5,115
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2002, the loans receivable were unsecured, non-interest bearing and scheduled for repayments on or before 25 October 2005. The loans receivable are mainly related to SBI E2-Capital Group, and are therefore no longer consolidated and presented upon the Group's equity interest in SBI E2-Capital Limited being reduced from 51% to 49% on 17 December 2003.

### 18. INVENTORIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	2,097	2,091
Work in progress	7,217	5,744
Finished goods	662	1,002
Stocks in trade	415	2,203
	<hr/>	<hr/>
	10,391	11,040
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2003 and 31 December 2002, there were no inventories carried at net realisable value.

## NOTES TO THE ACCOUNTS

### 19. ACCOUNTS RECEIVABLE

	Group	
	2003 HK\$'000	2002 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in securities, options and futures contracts	—	7,010
Accounts receivable from securities margin clients	—	961
Accounts receivable arising from garment manufacturing ( <i>note a</i> )	10,782	7,335
Accounts receivable arising from consulting, marketing and technology services ( <i>note b</i> )	4,741	5,897
Other trade debtors	591	2,886
	<u>16,114</u>	<u>24,089</u>

*Notes:*

- The credit terms of accounts receivable arising from garment manufacturing range from 30 days to 180 days.
- The credit terms of accounts receivable arising from consulting, marketing and technology services range from 30 days to 60 days.
- The aging analysis of the accounts receivable balance is as follows :

	Group	
	2003 HK\$'000	2002 HK\$'000
0 - 1 month	12,545	14,712
2 - 3 months	2,236	4,779
4 - 6 months	957	1,258
Over 6 months	376	3,340
	<u>16,114</u>	<u>24,089</u>



## NOTES TO THE ACCOUNTS

### 20. TRADING INVESTMENTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Equity securities, at market value		
Listed in Hong Kong	—	174
Listed outside Hong Kong	—	176
	<hr/>	<hr/>
	—	350
Unlisted equity securities, at fair value	—	3,122
	<hr/>	<hr/>
	—	3,472
Unlisted warrants, at fair value	—	309
	<hr/>	<hr/>
Total	—	3,781
	<hr/> <hr/>	<hr/> <hr/>

The trading investments are related to SBI E2-Capital Group and are therefore no longer consolidated and presented upon the Group's equity interest in SBI E2-Capital Limited being reduced from 51% to 49% on 17 December 2003.

### 21. SUNDRY DEBTORS, PREPAYMENTS AND DEPOSITS

As at 31 December 2002, there was a deposit of HK\$30,000,000 which represented an amount provisionally paid for the proposed acquisition of 30% equity interests 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 had yet to be paid back and actions had been taken by the Group as well as the relevant PRC authorities in an effort to recover the monies. During the year under review, the directors reassessed the carrying amount of the deposit and considered that its recoverability is unlikely and accordingly the deposit was fully provided for in the profit and loss account for the year ended 31 December 2003.

### 22. AMOUNT DUE FROM/TO A RELATED COMPANY

The balance represents an amount due from/to E2-Capital (Holdings) Limited. The amount due from/to E2-Capital (Holdings) Limited is unsecured, interest free and has no fixed terms of repayment.

## NOTES TO THE ACCOUNTS

### 23. ACCOUNTS PAYABLE

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accounts payable arising from garment manufacturing and operation of a country club	10,817	8,943
Accounts payable arising from consulting, marketing and technology services	2,492	2,554
Other trade creditors	5	5
	<u>13,314</u>	<u>11,502</u>

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

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 - 1 month	6,825	8,046
2 - 3 months	5,483	1,780
4 - 6 months	385	264
Over 6 months	621	1,412
	<u>13,314</u>	<u>11,502</u>

### 24. LOAN FROM A FORMER SUBSIDIARY

The balance represents a loan from SBI E2-Capital Asia Limited, a former 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. The balance has been reclassified as amount due to an associated company upon the completion of the disposal of a 2% equity interest in SBI E2-Capital Limited on 17 December 2003.

### 25. LOAN FROM A FORMER SUBSTANTIAL SHAREHOLDER

The balance represented a loan from Softbank Investment Corporation ("SBI"). The loan, denominated in Japanese Yen, was unsecured, interest bearing at 2.375% per annum and was fully repaid on 29 December 2003.

## NOTES TO THE ACCOUNTS

### 26. LONG TERM LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Loan from a former intermediate holding company ( <i>note a</i> )	10,948	9,921	10,948	9,921
Loan from a former fellow subsidiary ( <i>note b</i> )	65,250	59,130	65,250	59,130
Loan from a subsidiary ( <i>note c</i> )	—	—	3,974	151,572
	<u>76,198</u>	<u>69,051</u>	<u>80,172</u>	<u>220,623</u>

*Notes:*

- (a) The balance represents a loan from Softbank Finance Corporation ("SBF"), a former 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 29*).
- (b) 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 29*).
- (c) 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

### 27. SHARE CAPITAL

*Authorised:*

	Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2003 and 31 December 2003	6,000,000,000	600,000

*Issued and fully paid:*

At 1 July 2001	2,245,390,877	224,539
Issue of shares ( <i>note a</i> )	180,000,000	18,000
Exercise of options ( <i>note b</i> )	15,000,000	1,500
At 31 December 2002 and 1 January 2003	2,440,390,877	244,039
Issue of shares upon conversion of convertible notes ( <i>note c</i> )	1,192,499,994	119,250
At 31 December 2003	3,632,890,871	363,289

*Notes:*

- (a) 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.
- (b) During the 18-months ended 31 December 2002, 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.
- (c) During the year ended 31 December 2003, the convertible notes with principal amounts of HK\$143,100,000 were converted into ordinary shares at an adjusted conversion price of HK\$0.12 per share.

## NOTES TO THE ACCOUNTS

### 28. RESERVES

Group	(Accumulated					Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange translation reserve HK\$'000	losses)/ retained profits 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>(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>(95,954)</u>	<u>(6,336)</u>	<u>(697,462)</u>	<u>(176,036)</u>
At 1 January 2003	621,817	1,899	(95,954)	(6,336)	(697,462)	(176,036)
Issue of ordinary shares	23,850	—	—	—	—	23,850
Share issue expenses	(49)	—	—	—	—	(49)
Surplus on revaluation of non-trading securities	—	—	32,739	—	—	32,739
Investment revaluation reserve transferred to the profit and loss account upon impairment of non-trading securities	—	—	58,869	—	—	58,869
Exchange translation reserve released to the profit and loss account upon disposal of subsidiaries	—	—	—	(198)	—	(198)
Loss for the year	—	—	—	—	(118,424)	(118,424)
At 31 December 2003	<u>645,618</u>	<u>1,899</u>	<u>(4,346)</u>	<u>(6,534)</u>	<u>(815,886)</u>	<u>(179,249)</u>
Company and subsidiaries	645,618	1,899	(4,346)	(6,534)	(816,983)	(180,346)
Associated companies	—	—	—	—	1,374	1,374
Jointly controlled entities	—	—	—	—	(277)	(277)
	<u>645,618</u>	<u>1,899</u>	<u>(4,346)</u>	<u>(6,534)</u>	<u>(815,886)</u>	<u>(179,249)</u>

## NOTES TO THE ACCOUNTS

### 28. RESERVES (continued)

#### Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>
At 1 January 2003	621,817	1,899	(101,638)	(767,426)	(245,348)
Issue of ordinary shares	23,850	—	—	—	23,850
Share issue expenses	(49)	—	—	—	(49)
Surplus on revaluation of non-trading securities	—	—	20,908	—	20,908
Investment revaluation reserve transferred to the profit and loss account upon impairment of non-trading securities	—	—	50,818	—	50,818
Loss for the year	—	—	—	(73,497)	(73,497)
At 31 December 2003	<u>645,618</u>	<u>1,899</u>	<u>(29,912)</u>	<u>(840,923)</u>	<u>(223,318)</u>

The Company had no reserves available for distribution at 31 December 2003 under Section 79B of the Companies Ordinance (31 December 2002: Nil).

## NOTES TO THE ACCOUNTS

### 29. 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 which has been adjusted to HK\$0.12 per share (subject to adjustment) on the first anniversary date of 28 August 2003.

During the year, the Notes with principal amounts of HK\$143,100,000 were converted into 1,192,499,994 new ordinary shares of the Company.

### 30. DEFERRED TAXATION

At 31 December 2003, the Group has estimated unused tax losses of HK\$102,371,000 (31 December 2002: HK\$88,408,000) available for set off against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Such losses have no expiry date.

No deferred tax liability has been provided in respect of the accelerated tax depreciation of the Group's property, plant and equipment as the amount involved is immaterial.

### 31. CONTINGENT LIABILITIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Guarantee of banking facilities granted to subsidiaries	—	2,536

In addition, as disclosed in note 33 (i), the Company provided undertakings to the Monetary Authority of Singapore in respect of the obligations and liabilities of SBI E2-Capital Pte Ltd and SBI E2-Capital Securities Pte Ltd, of which the Group has 18.56% and 33.47% effective equity interest respectively.

## NOTES TO THE ACCOUNTS

### 32. COMMITMENTS

#### (a) Capital commitments

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contracted but not provided for -in respect of the subscription of redeemable convertible note issued by a private limited company (note 36a)	13,000	—	—	—
-in respect of a capital contribution to form a joint venture in the PRC	—	7,800	—	7,800
-in respect of leasehold improvement	—	2,000	—	2,000
	<u>13,000</u>	<u>9,800</u>	<u>—</u>	<u>9,800</u>

#### (b) Operating leases

At 31 December 2003, the Group and the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Not later than one year	3,602	6,526	3,146	3,573
Later than one year and not later than five years	<u>1,990</u>	<u>8,879</u>	<u>1,875</u>	<u>3,750</u>
	<u>5,592</u>	<u>15,405</u>	<u>5,021</u>	<u>7,323</u>



## NOTES TO THE ACCOUNTS

### 33. RELATED PARTY TRANSACTIONS

Related parties refer to E2-Capital (Holdings) Limited (“E2-Capital”) and its subsidiaries (collectively the “E2-Capital Group”), SIIS Investment Management Limited (“SIM”, formerly known as Softbank China Venture Investments Limited), former group companies in Japan as disclosed in notes 25, 26(a) and 26(b), Fung Choi Properties Limited (“Fung Choi”), Mr Li Shui and Lai Fai International Holdings Limited (“Lai Fai”). 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 former subsidiary of the Company (note 2). In addition, an executive director of the Company, Mr Wong Sin Just, is also an executive director and a substantial shareholder of E2-Capital. SIM is a company incorporated in Hong Kong and a subsidiary of the Company’s former ultimate holding company, SOFTBANK CORP. Mr Wong Sin Just, a director of the Company, is also a director of SIM. Following the completion of the acquisition of the entire equity interest in SIM on 25 November 2003, SIM become a wholly-owned subsidiary of the Company and ceased to be a related party (note (l)). Fung Choi is a company indirectly owned as to 60% by Mr Yu Kam Kee, Lawrence, an executive director of the Company. Mr Li Shui, an ex-director of the Company (resigned on 3 October 2003), is also a director and a substantial shareholder of Lai Fai.

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

	<i>Note</i>	<b>Year ended 31 December 2003 HK\$'000</b>	<b>18-months ended 31 December 2002 HK\$'000</b>
Management and consultancy fee income	(a)		
-E2-Capital Group		—	552
-SIM		1,576	2,431
Marketing service fee income	(b)		
-E2-Capital Group		70	953
-Lai Fai		551	171
Service fee income from E2-Capital Group	(c)	523	—
Advisory fee income	(d)		
-Lai Fai		526	400
-Mr Li Shui		—	1,269
Placing commission from Lai Fai	(d)	819	—
Back office expenses	(e)	—	(8,902)
Rental expenses	(f)		
-E2-Capital Group		—	(3,563)
-Fung Choi		(1,667)	—
Interest expenses to E2-Capital Group	(g)	—	(149)
Interest expenses to a former intermediate holding company, a former fellow subsidiary, and a former substantial shareholder	(h)	(2,205)	(2,118)

## NOTES TO THE ACCOUNTS

### 33. 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 fixed monthly management and consultancy fee income from SIM 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 resource 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) The Group received reimbursement from E2-Capital Group for the provision of compliance and administrative services at an agreed amount.
- (d) During the 18-months ended 31 December 2002, the Group received advisory fee from Mr Li Shui and Lai Fai for advisory service provided at rates agreed in accordance with the agreements entered into by the parties.

During the year ended 31 December 2003, the Group received advisory fee from Mr Li Shui and placing commission from Lai Fai at rates agreed in accordance with the agreements entered into by the parties.

- (e) 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.
- (f) 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.

On 29 August 2002, the Company entered into a tenancy agreement with Fung Choi, whereby the Company agreed to lease from Fung Choi the premises as its headquarter office for a term of three years commencing from 1 January 2003 to 31 December 2005 at a monthly rental of HK\$156,255.

- (g) The Group paid interest expenses at Hong Kong dollar prime rate plus 1% per annum on the amount due to E2-Capital Group. The amount has been fully repaid as at 30 June 2002.
- (h) The Group paid interest expenses at 2.375% per annum on the loans from SBF, SB Titus Corporation and SBI (notes 25, 26(a) and 26(b)).

## NOTES TO THE ACCOUNTS

### 33. RELATED PARTY TRANSACTIONS (continued)

- (i) Each of the Company and E2-Capital has agreed to provide to the Monetary Authority of Singapore (“MAS”) the undertakings, as required under the MAS capital markets services licence, pursuant to which each of the Company and E2-Capital undertakes to maintain each of SBI E2-Capital Pte Ltd (“SBI Pte”) and SBI E2-Capital Securities Pte Ltd (“SBI Securities Pte”) in a sound position and pay and settle all obligations and liabilities of SBI Pte and SBI Securities Pte arising during the existence of the undertakings. Separate undertakings were provided by the Company on 16 January 2003 and 9 April 2003 in relation to SBI Pte and SBI Securities Pte respectively.

The Company and E2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of each of SBI Pte and SBI Securities Pte should be determined by reference to their respective shareholdings in SBI E2-Capital Limited. Accordingly, the Company has indemnified E2-Capital for 51% of any claim under the undertakings given to the MAS by E2-Capital and E2-Capital has indemnified the Company for 49% of any claim under the undertakings given to the MAS by the Company. Following the completion of the disposal of 2% equity interest in SBI E2-Capital Limited to Mr Wong Sin Just on 17 December 2003, the Group’s interest in SBI E2-Capital Limited has been reduced from 51% to 49%. As such, Mr Wong Sin Just has indemnified the Company for 2% of its liability under the undertaking and indemnity given in relation to SBI Securities Pte.

- (j) On 3 March 2003, two separate sale and purchase agreements were entered into between SIIS Capital Holdings Limited (“SIIS CH”, formerly known as SBIS Capital Holdings Limited and a wholly-owned subsidiary of the Company) and (i) Westcomb Profits Limited (“Westcomb”) and (ii) Mr Fung Ka Pun (“Mr K.B. Fung”), whereby SIIS CH agreed to sell 175,000 shares and 75,000 shares of S\$1.00 each in the share capital of SBI E2-Capital Holdings Ltd (formerly known as SBI E2-Capital Holdings Pte Ltd), representing approximately 7% and 3% interests in its share capital, to Westcomb and Mr K.B. Fung for a consideration of S\$1.40 million and S\$0.60 million (equivalent to approximately HK\$6.27 million and approximately HK\$2.67 million) respectively. The agreements were completed on 14 March 2003 and 12 March 2003 respectively. A capital gain in the total sum of approximately HK\$6.48 million was recognised in the profit and loss account during the year ended 31 December 2003.
- (k) On 11 September 2002, (i) a share subscription agreement (“Share Subscription Agreement”) was entered into between SBI E2-Capital Holdings Ltd, SBI E2-Capital Asia Limited, SBI E2-Capital China Holdings Limited and SBI Securities Pte, whereby SBI Securities Pte agreed to allot and issue an aggregate of 4,999,998 new shares of S\$1.00 each to the other parties of the agreement for a total consideration of approximately S\$5 million (approximately HK\$22 million); and (ii) a share purchase agreement (“Share Purchase Agreement”) was entered into between SBI E2-Capital Securities Limited and SBI Securities Pte whereby SBI Securities Pte agreed to purchase 1,000,000 shares (representing 10% shareholding) of SBI E2-Capital Brokerage Limited for a consideration of S\$0.5 million (approximately HK\$2.2 million).

SBI Securities Pte is an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Holdings Ltd, which owns 100% of the issued share capital of SBI Securities Pte and a non-wholly-owned subsidiary of SBI E2-Capital Asia Limited, is an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Asia Limited, a 56% shareholder of SBI E2-Capital Holdings Ltd and the sole shareholder of SBI E2-Capital China Holdings Limited, is an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital China Holdings Limited, a wholly-owned subsidiary of SBI E2-Capital Asia Limited, is therefore an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Securities Limited, an indirect wholly-owned subsidiary of SBI E2-Capital Asia Limited, is in turn an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Brokerage Limited, a wholly-owned subsidiary of SBI E2-Capital Securities Limited, is therefore an indirect non-wholly-owned subsidiary of the Company. As Mr Choo Chee Kong, an ex-director of the Company (resigned on 19 September 2002), is also a substantial shareholder of SBI Securities Pte holding an indirect interest of 21.2% of its issued capital. (The above is based on the corporate structure as at the time of signing the agreements.)

On 30 October 2002, two separate supplemental agreements were entered into between all parties to extend the completion date of both the Share Subscription Agreement and Share Purchase Agreement from 31 October 2002 to on or before 30 June 2003.

The Share Subscription Agreement was completed on 9 April 2003.

On 12 May 2003, a termination agreement was entered into between SBI E2-Capital Securities Limited and SBI Securities Pte to terminate the Share Purchase Agreement.

## NOTES TO THE ACCOUNTS

### 33. RELATED PARTY TRANSACTIONS (continued)

- (l) On 3 October 2003, a share sale agreement (as amended by the supplemental agreements) was entered into between the Company, Softbank Investment Corporation ("SBI") and Softbank Contents Partners Corporation, a subsidiary of SBI, whereby the Company agreed to acquire (via its wholly-owned subsidiary) 100% equity interest in SIM at a consideration of US\$945,000. The acquisition was completed on 25 November 2003.
- (m) On 22 October 2003, a sale and purchase agreement was entered into between SIIS CH and Goodwill Investment (BVI) Limited ("Goodwill") whereby SIIS CH agreed to sell to Goodwill 6 ordinary shares of HK\$1.00 each in the capital of SBI E2-Capital Limited, representing 2% of its issued share capital, for a consideration of HK\$1,405,000. The agreement was subsequently terminated on 26 November 2003.
- (n) On 26 November 2003, SIIS CH entered into a sale and purchase agreement with Mr Wong Sin Just whereby SIIS CH agreed to sell its 2% equity interest in SBI E2-Capital Limited to Mr Wong Sin Just for a consideration of HK\$1,405,000 and a loss of HK\$438,000 was recognised. The disposal was completed on 17 December 2003. Following the completion, the Group's interest in SBI E2-Capital Limited has been reduced from 51% to 49%. As such, Mr Wong Sin Just has indemnified the Company for 2% of its liability under the undertaking and indemnity given in relation to SBI Securities Pte (note i).
- (o) During the year ended 31 December 2003, the Company paid HK\$380,000 (18-months ended 31 December 2002: HK\$6,949,000) advisory fee to SBI E2-Capital Limited and its subsidiaries, at rates agreed in accordance with the agreements entered into by both parties.

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Effects of acquisition and disposal of subsidiaries

#### (a) Disposals

On 26 November 2003, the Group entered into a sale and purchase agreement with Mr Wong Sin Just, a director of the Company, under which the Group agreed to sell its 2% equity interest in SBI E2-Capital Limited to Mr Wong Sin Just at a consideration of HK\$1,405,000. The disposal was completed on 17 December 2003, and a loss of HK\$438,000 was recognised. Following the completion of the disposal, the Group's equity interest in SBI E2-Capital Limited has been reduced from 51% to 49% and accordingly the Group ceased consolidating the accounts of SBI E2-Capital Limited and its accounts have since been equity accounted for in the Group's consolidated accounts.

In addition, certain dormant subsidiaries had been deregistered during the year which posted a net gain of approximately HK\$6,000 in the profit and loss account.

## NOTES TO THE ACCOUNTS

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Acquisitions

As disclosed in note 33(l), the Group acquired 100% interest in SIM for a consideration of US\$945,000. Following the completion of the acquisition on 25 November 2003, the acquired subsidiary contributed turnover of approximately HK\$487,000 and net operating profit of approximately HK\$1,000 during the current year.

	Acquisition		Disposal	
	Year ended 31 December 2003 HK\$'000	18-months ended 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	18-months ended 31 December 2002 HK\$'000
Net assets acquired/ disposed of				
Fixed assets	18	820	(2,677)	(42,187)
Associated companies	—	—	(13,477)	—
Jointly controlled entity	500	—	—	—
Non-trading securities	—	46,800	—	—
Statutory and other deposits	—	—	(5,038)	—
Other employee benefits	—	—	(11,900)	—
Loans receivable	—	—	(750)	—
Inventory	—	6,051	—	(8,574)
Accounts and other receivables	110	20,465	(46,318)	(8,185)
Trading investments	—	—	(4,152)	—
Amount due from the Company	—	—	(13,568)	—
Pledged bank deposits	—	—	(5,000)	—
Cash and bank balances	6,576	2,659	(52,909)	(5,263)
Trade and other payables	(4,074)	(26,177)	44,735	8,037
Amount due to a related company	—	(998)	326	—
Bank loans	—	—	—	626
Taxation	186	(190)	505	—
Minority interests	—	(3,837)	63,134	—
Net identifiable assets/ (liabilities)	3,316	45,593	(47,089)	(55,546)
Goodwill	4,062	41,034	—	—
Reclassified as interests in associated companies	—	—	45,252	—
Loss/(gain) on disposal	—	—	432	(710)
	<u>7,378</u>	<u>86,627</u>	<u>(1,405)</u>	<u>(56,256)</u>

## NOTES TO THE ACCOUNTS

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Acquisitions (continued)

	Acquisition		Disposal	
	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>	Year ended 31 December 2003 <i>HK\$'000</i>	18-months ended 31 December 2002 <i>HK\$'000</i>
Total amounts paid/ (received), satisfied by:				
Accounts payable to former related companies	7,370	16,200	—	—
Cash	8	70,427	(1,405)	(56,256)
	<u>7,378</u>	<u>86,627</u>	<u>(1,405)</u>	<u>(56,256)</u>
Cash paid/(received)	8	70,427	(1,405)	(56,256)
Less: cash and cash equivalents of subsidiaries (acquired)/ disposed of	<u>(6,576)</u>	<u>(2,659)</u>	<u>52,909</u>	<u>5,263</u>
Net cash outflow/(inflow) in respect of the purchase/ disposal of subsidiaries	<u><u>(6,568)</u></u>	<u><u>67,768</u></u>	<u><u>51,504</u></u>	<u><u>(50,993)</u></u>

## NOTES TO THE ACCOUNTS

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Cash and bank balances disposed upon group restructuring

On 18 December 2002, a corporate restructuring took place where SBI E2-Capital Holdings Ltd (formerly known as 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, in SBI E2-Capital Holdings Ltd, and accordingly the Group ceased to consolidate the accounts of SBI E2-Capital Holdings 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 upon group restructuring	
- cash and bank balances disposed of from ceasing to consolidate the accounts of SBI E2-Capital Holdings Ltd	<u>26,540</u>

## NOTES TO THE ACCOUNTS

### 35. 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

### 35. 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
Rearden Limited	Hong Kong	HK\$10,000	100%	—	Property investment
SIIS Capital Holdings Limited (formerly SBIIS Capital Holdings Limited)	British Virgin Islands	US\$1	100%	—	Investment holding
SIIS Investment Holdings Limited (formerly SBI Strategic Holdings Limited)	British Virgin Islands	US\$1	100%	—	Investment holding
SIIS Investment Management Limited (formerly Softbank China Venture Investments Limited)	Hong Kong	HK\$3,875,002	—	100%	Provision of management and advisory services in private equity
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

## NOTES TO THE ACCOUNTS

### 35. 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	
Sun-Tech International Group Limited# (formerly Sun-Tech Business Systems Limited)	Hong Kong	HK\$1,200,000	—	20.4%	Provision of computer system integration services
Tak Wah Ho Company Limited	Hong Kong	Ordinary HK\$1,000 Deferred HK\$1,200,100 (note a)	100%	—	Property investment
Year Ford Industries Limited	Hong Kong	HK\$1,000	100%	—	Property investment

# Subsidiaries not audited by PricewaterhouseCoopers, Hong Kong

#### 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.

### 36. SUBSEQUENT EVENTS

- (a) In December 2003, the Group entered into an agreement for the subscription of redeemable convertible notes due 2007 in the principal amount of HK\$13,000,000 at an initial coupon rate of 5% per annum (subject to adjustment) issued by Zhongtian International Limited (“Zhongtian”). Zhongtian is one of the leading providers of financial related software platforms and solutions to credit unions and other financial institutions in the PRC. The subscription was completed in January 2004.
- (b) In December 2003, the Group entered into a placing agreement with First Shanghai Securities Limited for the issuance of convertible notes due 2006 for up to an aggregate principal amount of HK\$48,000,000. Completion of the convertible notes issue took place in February 2004 and the convertible notes in the aggregate principal amount of HK\$48,000,000 were issued to the subscribers accordingly. The amount of net proceeds from the issuance of the convertible notes is approximately HK\$46,500,000.

### 36. SUBSEQUENT EVENTS (continued)

- (c) In January 2004, the Group entered into a subscription agreement and a shareholders agreement with independent third parties with regards to the shareholding of M DREAM (CHINA) HOLDINGS LTD. (“M DREAM CHINA”). Along with the equity interests of Softbank Asia Net-Trans Fund Limited (which is managed by the Group), the Group now controls 35% of M DREAM CHINA. M DREAM CHINA is the 100% holding company of Hangzhou M Dream Co., Ltd., a company which specialises in the development, manufacturing of and service for mobile entertainment games software which are currently available over China Mobile and China Unicom Mobile platforms in China.
- (d) In February 2004, the Group entered into a shareholders agreement with Xybernaut Corporation for the formation of a new joint venture company, Xybernaut China Limited (“Xybernaut China”). The Group and Xybernaut Corporation own respectively, 40% and 60% shareholding in Xybernaut China. Xybernaut China will focus primarily on delivering wearable/mobile computing technology to Mainland China and Hong Kong.
- (e) In February 2004, the Group disposed of 10,316,800 shares in Lai Fai International Holdings Limited to SBF for a total consideration of approximately HK\$7,000,000 which recorded a capital gain of approximately HK\$551,000.
- (f) In March 2004, the Group entered into a sale and purchase agreement with an independent third party under which the Group agreed to sell a property with a carrying amount of HK\$7,080,000 at a total consideration of HK\$7,500,000. The agreement is scheduled to complete on or before 26 April 2004.

### 37. ULTIMATE HOLDING COMPANY

On 3 October 2003, SBF, SBI and Softbank Investment (International) Holdings Limited (collectively the “Softbank Group”) entered into a deed of undertaking with the Company under which each member of the Softbank Group undertook to dispose of all their shareholdings in the Company through the facilities of The Stock Exchange of Hong Kong Limited. Upon the completion of the disposal on 4 November 2003, the Softbank Group no longer holds any equity interest in the Company and SOFTBANK CORP. also ceased to be the ultimate holding company of the Company.



## NOTES TO THE ACCOUNTS

### 38. COMPARATIVE FIGURES

The corresponding period covers eighteen months ended 31 December 2002. As a result, 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 year's presentation.

### 39. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 19 March 2004.