

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements 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 properties and investments in securities are stated at fair value.

In the current year, the Group adopted SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003.

The effect of adopting these new standards is set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group 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.

Where an interest in a subsidiary was acquired with the intention that the control is temporary, the interest is classified as a current asset and is accounted for at the same policy as other investments under the accounting policies of investments in securities.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(ii) *Associated companies*

An associated company is a company, not being a subsidiary, 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 also goodwill/ negative goodwill (net of accumulated amortisation) on acquisition.

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

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

Where the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

(iii) *Translation of foreign currencies*

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

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Properties under/for development

Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for investment purposes or no decision has yet been made on their future use. These properties are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses.

(d) Properties for sale/properties under development for sale

Properties for sale are stated at the lower of cost and net realisable value. Cost includes land cost, construction cost, interest, finance charges and other direct costs. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Where presale has taken place, properties under development for sale are stated at cost plus attributable profits less foreseeable losses and deposits received from presale; otherwise, properties under development for sale are stated at the lower of cost and net realisable value. Cost includes land cost, construction cost, interest, finance charges and other direct cost attributable to the development of the properties. Foreseeable losses represent estimated or actual selling price less all costs to completion and selling expenses. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(e) Investment properties

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

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. 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 financial statements. Increases in valuation 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.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Leasehold land and buildings and other fixed assets

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|------------------------------------|--------------------------|
| Buildings | 2% |
| Leasehold improvements | 20% - 33 $\frac{1}{3}$ % |
| Furniture, fixtures and equipments | 20% - 33 $\frac{1}{3}$ % |
| Plant and machinery | 20% |
| Moulds | 20% |
| Motor vehicles | 20% |

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(g) Impairment and gain or loss on sale

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 under development, properties under development for sale 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Operating leases

Leases where substantially all the risks and rewards 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.

(i) Goodwill

Goodwill represents the excess of the cost of an 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 on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a maximum period of 15 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(j) Investments in securities

Investments in securities are classified as investment securities and other investments.

Investment securities are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase and, where appropriate, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Cost was calculated using weighted average cost method in prior year for inventories under the discontinued operation. In current year, cost is calculated on the first-in-first-out basis, comprises 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.

(l) 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.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, 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 the 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Contingent liabilities and contingent assets

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary difference arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have restated to conform to the changed policy.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

Revenue from the 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.

Service income is recognized on completion of contract which typically lasts for one to six months.

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

Income from the sale of completed properties is recognised on execution of a binding sales agreement.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of a binding sales agreement to the completion of development on the basis of development costs to date as a proportion of estimated total development costs.

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

Brokerage income, commission income, advisory fees, introductory fees, nominee income and management fee are recognised when the service is rendered, the income can be reliably estimated and it is probable that the revenue will be received.

Profit or loss on futures and equity option trading and other financial derivative products is recognised on a trade date basis when a sale and purchase contract is entered into.

Operating lease rental income is recognised on a straight line basis over the lease term.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Profit sharing and bonus plans*

Provisions for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Retirement benefit costs*

The Group contributes to a defined contribution plan and a mandatory provident fund scheme which are available to all employees. The assets of which are held in separate trustee-administered funds. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the scheme.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) 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.

Segment assets consist primarily of intangible assets, fixed assets, investment properties, inventories, receivables, operating cash and investments in securities. 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, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of financial services, consulting, marketing and technology services, direct investments, property development, industrial and management operating services. Revenues recognised during the year are as follows:

| | 2003 | 2002 |
|---|-------------|-------------|
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Sales of goods | 34,765 | 32,937 |
| Sales of properties and investments | 11,905 | 57,049 |
| Service income | | |
| - provision of public relations and cultural services | — | 1,881 |
| - provision of technology consulting and development services | — | 11,373 |
| Advisory fee, introductory fee and other commission income | 553 | 6,234 |
| Interest income | 1,633 | 2,652 |
| Rental income and building management fee income | 2,847 | 3,888 |
| | <hr/> | <hr/> |
| Total turnover | 51,703 | 116,014 |
| Other revenues | 788 | 310 |
| | <hr/> | <hr/> |
| Total revenues | 52,491 | 116,324 |
| | <hr/> <hr/> | <hr/> <hr/> |

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

The Group's entire equity interests in a number of companies engaged in the provision of consulting, marketing and technology services (collectively, the "ebizal Group") were disposed of by the Group in the previous year. Accordingly the Group ceased consolidating the financial statements of ebizal Group upon completion of the said disposal and no service income was recorded for the year.

Primary reporting format - business segments

The Group is organised into six main business segments:

- Broking Services - securities broking and provision of margin financing, commodities, options and futures broking
- Industrial and Management Operating Services - manufacture of quality plastic and paper boxes for luxury consumer goods, provision of asset management services and trading of dyestuffs
- Investment Banking - provision of corporate finance services
- Direct Investments - securities trading
- Property - property development and holding
- Consulting, Marketing and Technology Service - provision of technology consulting and development services and public relations services

Secondary reporting format - geographical segments

Although the Group's six business segments are managed on a regional basis, they operate in two main geographical areas :

The People's Republic of China including Hong Kong - broking services, industrial and management operating services, investment banking, direct investments, property and consulting, marketing and technology services

Japan and North Asia - industrial, investment banking, direct investments and management operating services

There are no sales between the geographical segments.

NOTES TO THE FINANCIAL STATEMENTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format - business segments

| | 2003 | | | | | | Group |
|---|---------------------|---|-----------------------|-----------------------|----------|---|-----------|
| | HK\$'000 | | | | | | |
| | Broking Services | Industrial & Management Operating Services | Investment Banking | Direct Investments | Property | Consulting, Marketing & Technology Services <i>(note)</i> | |
| Revenues | — | 34,765 | 553 | 1,633 | 14,752 | — | 51,703 |
| Segment results | — | (1,251) | (73) | 2,042 | (10,239) | — | (9,521) |
| Net investment loss | — | — | — | (22,167) | — | — | (22,167) |
| General corporate expenses | | | | | | | (18,903) |
| Operating loss before provision for impairment of assets | | | | | | | (50,591) |
| Provision for impairment of assets | — | — | — | (5,910) | (79,971) | — | (85,881) |
| Operating loss | | | | | | | (136,472) |
| Finance costs | — | (15) | — | — | (2,731) | — | (2,746) |
| Share of profits less losses of associated companies | (325) | 9,122 | 8,768 | — | — | — | 17,565 |
| Loss before taxation | | | | | | | (121,653) |
| Taxation | | | | | | | (2,473) |
| Loss after taxation | | | | | | | (124,126) |
| Minority interests | | | | | | | (272) |
| Loss attributable to shareholders | | | | | | | (124,398) |
| Segment assets | — | 31,389 | — | 55,169 | 341,850 | — | 428,408 |
| Investments in associated companies | 40,063 | 52,494 | 17,268 | 318 | — | — | 110,143 |
| Unallocated assets | | | | | | | 162,297 |
| Total assets | | | | | | | 700,848 |
| Segment liabilities | — | 7,658 | — | 21 | 165,245 | — | 172,924 |
| Unallocated liabilities | | | | | | | 7,933 |
| Total liabilities | | | | | | | 180,857 |
| Capital expenditure | — | 350 | 74 | 13 | 118 | — | 555 |
| Depreciation | — | 197 | — | 1,084 | 979 | — | 2,260 |

NOTES TO THE FINANCIAL STATEMENTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format - business segments

| | 2002 | | | | | | Group |
|---|---------------------|---|-----------------------|-----------------------|-----------|--|-----------|
| | HK\$'000 | | | | | | |
| | Broking Services | Industrial & Management Operating Services | Investment Banking | Direct Investments | Property | Consulting, Marketing & Technology Services | |
| Revenues | — | 32,937 | 1,412 | 8,064 | 60,347 | 13,254 | 116,014 |
| Segment results | — | 3,459 | (3,298) | 103 | (7,513) | 2,128 | (5,121) |
| Gain on disposal of discontinued operation | — | — | — | — | — | — | 12,189 |
| Net investment loss | — | — | — | (151,264) | — | — | (151,264) |
| General corporate expenses | — | — | — | — | — | — | (24,592) |
| Operating loss before provision for impairment of assets | — | — | — | — | — | — | (168,788) |
| Provision for impairment of assets | — | — | (22,898) | — | (167,440) | — | (190,338) |
| Operating loss | — | — | — | — | — | — | (359,126) |
| Finance costs | — | (26) | — | (200) | (3,660) | (4) | (3,890) |
| Share of profits less losses of associated companies | (6,087) | 9,603 | 1,410 | — | 207 | — | 5,133 |
| Loss before taxation | — | — | — | — | — | — | (357,883) |
| Taxation | — | — | — | — | — | — | 1,419 |
| Loss after taxation | — | — | — | — | — | — | (356,464) |
| Minority interests | — | — | — | — | — | — | 4,786 |
| Loss attributable to shareholders | — | — | — | — | — | — | (351,678) |
| Segment assets | — | 21,918 | 10,638 | 71,573 | 507,455 | — | 611,584 |
| Investments in associated companies | 26,507 | 48,014 | 24,960 | — | 318 | — | 99,799 |
| Unallocated assets | — | — | — | — | — | — | 105,801 |
| Total assets | — | — | — | — | — | — | 817,184 |
| Segment liabilities | — | 7,897 | 180 | 1,493 | 150,719 | — | 160,289 |
| Unallocated liabilities | — | — | — | — | — | — | 12,506 |
| Total liabilities | — | — | — | — | — | — | 172,795 |
| Capital expenditure | — | 6,637 | — | 1,122 | 46,871 | — | 54,630 |
| Depreciation | — | 133 | 1,650 | 1,757 | 1,018 | — | 4,558 |
| Amortisation charge | — | — | 1,561 | — | — | — | 1,561 |

NOTES TO THE FINANCIAL STATEMENTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Note:

On 24 January 2002, the Group sold its entire equity interest in ebizal Investments Limited (subsequently renamed as ebizal (Holdings) Limited) which is engaged in the consulting, marketing & technology services segment. As such, the operation of the consulting, marketing & technology service was discontinued in the current year. Net assets disposed of amounted to HK\$56 million (note 33).

Secondary reporting format - geographical segments

| | Turnover | | Operating loss before provision for impairment of assets | |
|---|---------------|----------------|---|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Geographical segment: | | | | |
| The Peoples' Republic of China including Hong Kong | 51,703 | 115,077 | (50,591) | (167,195) |
| Japan and North Asia | — | 937 | — | (1,593) |
| | <u>51,703</u> | <u>116,014</u> | <u>(50,591)</u> | <u>(168,788)</u> |

As the total carrying amount of segment assets and the total cost incurred during the year to acquire segment assets for each geographical segment other than the Peoples' Republic of China including Hong Kong are less than 10% of the total assets of all geographical segments, no separate disclosure is shown for segment assets by geographical segment.

NOTES TO THE FINANCIAL STATEMENTS

3. PROVISION FOR IMPAIRMENT OF ASSETS

| | 2003 | 2002 |
|--|---------------|----------------|
| | HK\$'000 | HK\$'000 |
| Provision for impairment of: | | |
| Goodwill | — | 21,854 |
| Investment properties (<i>note 12</i>) | 6,792 | 52,316 |
| Leasehold land and building (<i>note 12</i>) | 4,774 | 7,320 |
| Furniture, fixtures and equipment (<i>note 12</i>) | — | 1,044 |
| Properties under/for development (<i>note 13</i>) | 26,201 | 38,945 |
| Properties for sale (<i>note 19</i>) | 23,012 | 3,359 |
| Loans receivable from investee companies | 25,102 | 65,500 |
| | <u>85,881</u> | <u>190,338</u> |

4. OPERATING LOSS

Operating loss is stated after charging the following:

| | 2003 | 2002 |
|--|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Charging | | |
| Depreciation: | | |
| Owned fixed assets | 2,260 | 4,558 |
| Staff costs (including directors' remuneration) | 17,820 | 28,553 |
| Pensions - defined contribution plans (<i>note 10</i>) | 402 | 439 |
| Operating leases | | |
| Land and buildings | 720 | 3,698 |
| Auditors' remuneration | 600 | 600 |
| Amortisation of goodwill | — | 1,561 |
| Loss on disposal of fixed assets | 1,782 | 618 |
| Provision for doubtful receivables | 3,018 | 3,120 |
| | <u>3,018</u> | <u>3,120</u> |

NOTES TO THE FINANCIAL STATEMENTS

5. FINANCE COSTS

| | 2003 | 2002 |
|---|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Interest on bank loans | | |
| Wholly repayable within five years | 5,389 | 5,263 |
| Interest on other loans | | |
| Not wholly repayable within five years | 128 | 153 |
| Total borrowing costs incurred | 5,517 | 5,416 |
| Less: amount capitalised in properties under/for development and properties under development for sale | (2,771) | (1,526) |
| | <u>2,746</u> | <u>3,890</u> |

The interest rate applied to funds borrowed generally and used for the development of properties under/for development is between Hong Kong Interbank Offered Rate plus 1.25 % and Hong Kong dollar prime rate plus 1.5% per annum.

6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit 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 profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

| | 2003 | 2002 |
|--|--------------|----------------|
| | HK\$'000 | HK\$'000 |
| Hong Kong profits tax | | |
| Current year | — | 210 |
| Over-provision in previous years | (34) | (4,519) |
| Overseas tax | — | 6 |
| Share of taxation attributable to associated companies | 2,507 | 2,884 |
| | <u>2,473</u> | <u>(1,419)</u> |

NOTES TO THE FINANCIAL STATEMENTS

6. TAXATION (Continued)

Reconciliation of the loss before taxation to taxation charge/(credit) during the year:

| | 2003 | 2002 |
|--|--------------|----------------|
| | HK\$'000 | HK\$'000 |
| Loss before taxation | (121,653) | (357,883) |
| Calculated at a taxation rate of 17.5% (2002: 16%) | (21,289) | (57,261) |
| Effect of different taxation rates in other countries | 379 | (6) |
| Over-provision for previous years | (34) | (4,519) |
| Income not subject to taxation | (4,709) | (878) |
| Expenses not deductible for taxation purpose | 16,206 | 48,512 |
| Share of taxation attributable to associated companies | 2,128 | 2,884 |
| Unrecognised tax losses | 9,792 | 9,849 |
| Taxation charge/(credit) | <u>2,473</u> | <u>(1,419)</u> |

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$112,795,000 (2002: HK\$284,783,000).

8. DIVIDENDS

| | 2003 | 2002 |
|---|----------|--------------|
| | HK\$'000 | HK\$'000 |
| Interim, paid, of nil HK cent (2002: 0.25 HK cent) per ordinary share | <u>—</u> | <u>2,862</u> |

The Directors do not recommend the payment of a final dividend (2002: nil).

9. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$124,398,000 (2002: HK\$351,678,000).

The basic loss per share is based on the weighted average of 572,333,168 (2002: 572,500,338 as restated) ordinary shares in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS

10. PENSIONS - DEFINED CONTRIBUTION PLANS

No forfeited contributions were utilised during the year (2002: nil). At 31 December 2003, the total amount of unutilised forfeited contributions was immaterial.

Contributions totalling HK\$335,000 (2002: HK\$142,000) were payable to the defined contribution scheme at the year-end and are included in other payables.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

| | 2003 | 2002 |
|--|--------------|---------------|
| | HK\$'000 | HK\$'000 |
| Fees | | |
| - Executive | — | — |
| - Independent non-executive | — | — |
| Other emoluments | | |
| Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind | 6,240 | 11,593 |
| Contributions to pension schemes for directors | | |
| - as directors | 24 | 24 |
| - for other offices | — | — |
| | <u>6,264</u> | <u>11,617</u> |

The emoluments of the directors fell within the following bands:

| Emolument bands | Number of directors | |
|-------------------------------|---------------------|----------|
| | 2003 | 2002 |
| HK\$nil - HK\$1,000,000 | 2 | 3 |
| HK\$3,000,001 - HK\$3,500,000 | 2 | — |
| HK\$5,500,001 - HK\$6,000,000 | — | 2 |
| | <u>4</u> | <u>5</u> |

NOTES TO THE FINANCIAL STATEMENTS

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

| | 2003 | 2002 |
|---|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind | 2,910 | 3,117 |
| Pensions | 36 | 36 |
| | <u>2,946</u> | <u>3,153</u> |

The emoluments fell within the following bands:

Emolument bands

HK\$nil - HK\$1,000,000
 HK\$1,000,001 - HK\$1,500,000
 HK\$1,500,001 - HK\$2,000,000

Number of individuals

| | 2003 | 2002 |
|-------------------------------|----------|----------|
| HK\$nil - HK\$1,000,000 | 1 | 2 |
| HK\$1,000,001 - HK\$1,500,000 | 2 | 1 |
| HK\$1,500,001 - HK\$2,000,000 | — | — |
| | <u>—</u> | <u>—</u> |

NOTES TO THE FINANCIAL STATEMENTS

12. FIXED ASSETS

| | Group | | | | | Total HK\$'000 |
|---|--------------------------------------|---|--------------------------------------|--|-------------------------------|-------------------|
| | Investment properties HK\$'000 | Leasehold land and building HK\$'000 | Leashold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | |
| Cost: | | | | | | |
| At 1 January 2003 | 125,608 | 41,292 | 6,031 | 11,162 | 3,072 | 187,165 |
| Additions | — | — | — | 5 | 550 | 555 |
| Reclassified to properties for sale/properties under development for sale | (119,308) | — | — | — | — | (119,308) |
| Disposals | — | — | (1,127) | (3,522) | (859) | (5,508) |
| At 31 December 2003 | <u>6,300</u> | <u>41,292</u> | <u>4,904</u> | <u>7,645</u> | <u>2,763</u> | <u>62,904</u> |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2003 | 52,316 | 16,088 | 4,603 | 9,411 | 1,767 | 84,185 |
| Charge for the year | — | 858 | 194 | 736 | 472 | 2,260 |
| Impairment charge (note 3) | 6,792 | 4,774 | — | — | — | 11,566 |
| Reclassified to properties for sale/properties under development for sale | (57,308) | — | — | — | — | (57,308) |
| Disposals | — | — | (121) | (2,708) | (457) | (3,286) |
| At 31 December 2003 | <u>1,800</u> | <u>21,720</u> | <u>4,676</u> | <u>7,439</u> | <u>1,782</u> | <u>37,417</u> |
| Net book value: | | | | | | |
| At 31 December 2003 | <u>4,500</u> | <u>19,572</u> | <u>228</u> | <u>206</u> | <u>981</u> | <u>25,487</u> |
| At 31 December 2002 | <u>73,292</u> | <u>25,204</u> | <u>1,428</u> | <u>1,751</u> | <u>1,305</u> | <u>102,980</u> |

NOTES TO THE FINANCIAL STATEMENTS

12. FIXED ASSETS (Continued)

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

| | Group | |
|----------------------------------|---------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| In Hong Kong, held on | | |
| Leases of over 50 years | — | 67,192 |
| Leases of between 10 to 50 years | 24,072 | 31,304 |
| | <u>24,072</u> | <u>98,496</u> |

The investment properties and other properties were valued on an open market value basis as at 31 December 2003 by a member of the Hong Kong Institute of Surveyor employed by the Group.

The carrying amount of the leasehold land and building would have been HK\$29,146,000 (2002: HK\$30,004,000) had they been stated at cost less accumulated depreciation.

| | Company | | |
|---------------------------|---|-------------------------------|-------------------|
| | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
| Cost: | | | |
| At 1 January 2003 | 3,611 | 1,731 | 5,342 |
| Additions | — | 550 | 550 |
| Disposals | (3,506) | (859) | (4,365) |
| At 31 December 2003 | <u>105</u> | <u>1,422</u> | <u>1,527</u> |
| Accumulated depreciation: | | | |
| At 1 January 2003 | 2,200 | 671 | 2,871 |
| Charge for the year | 528 | 369 | 897 |
| Disposals | (2,695) | (458) | (3,153) |
| At 31 December 2003 | <u>33</u> | <u>582</u> | <u>615</u> |
| Net book value: | | | |
| At 31 December 2003 | <u>72</u> | <u>840</u> | <u>912</u> |
| At 31 December 2002 | <u>1,411</u> | <u>1,060</u> | <u>2,471</u> |

NOTES TO THE FINANCIAL STATEMENTS

13. PROPERTIES UNDER/FOR DEVELOPMENT

| | Group | |
|---|----------------------|----------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Cost | | |
| At 1 January | 166,146 | 399,286 |
| Additions | — | 32,901 |
| Reclassified to investment properties | — | (140,308) |
| Reclassified to properties under development for sale | — | (125,733) |
| At 31 December | <u>166,146</u> | <u>166,146</u> |
| Provision for impairment | | |
| At 1 January | 76,945 | 59,000 |
| Reclassified to investment properties | — | (21,000) |
| Additions | 26,201 | 38,945 |
| At 31 December | <u>103,146</u> | <u>76,945</u> |
| | <u><u>63,000</u></u> | <u><u>89,201</u></u> |

The properties under development are situated in Hong Kong under the following lease terms:

| | 2003 | 2002 |
|----------------------------------|----------------------|----------------------|
| | HK\$'000 | HK\$'000 |
| Leases of between 10 to 50 years | <u><u>63,000</u></u> | <u><u>89,201</u></u> |

As at 31 December 2003, interest expenses capitalised in the cost of properties under development amounted to HK\$33,152,000 (2002: HK\$33,152,000).

The properties under/for development have been pledged to secure banking facilities granted to the Group of HK\$24,190,000 (2002: HK\$49,000,000).

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|------------------|------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares at cost | 1,185,916 | 1,185,916 |
| Amounts due from subsidiaries (note 21) | 632,843 | 700,288 |
| Amounts due to subsidiaries (note 23) | (1,182,577) | (1,105,605) |
| | <u>(549,734)</u> | <u>(405,317)</u> |

Amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

At 31 December 2003, the Company held interests in the following principal subsidiaries:

| Name | Place of incorporation/ establishment | Particulars of issued/ registered capital | Interest held | | Principal activities |
|---|--|--|---------------|---------------|----------------------|
| | | | Direct % | Indirect % | |
| Access Way Investment Limited | Hong Kong | HK\$2 | — | 100 | Property development |
| Active Way International Limited | Hong Kong | HK\$2 | — | 100 | Property development |
| Cheung Wah Ho Dyestuffs Company Limited | Hong Kong | Ordinary HK\$1,000 Non-voting deferred HK\$800,100 (Note a) | | 70 | Trading of dyestuffs |
| Coreford Investments Limited | British Virgin Islands | US\$1 | — | 100 | Investment holding |
| e2-Capital Venture Limited | Cayman Islands | US\$2 | 100 | — | Venture capital |

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment | Particulars of issued/ registered capital | Interest held | | Principal activities |
|--|--|--|---------------|---------------|--|
| | | | Direct % | Indirect % | |
| Ever Lead Limited | Hong Kong | Ordinary HK\$98 Non-voting deferred HK\$2 (Note a) | — | 100 | Property development |
| Ever Loyal Development Limited | Hong Kong | HK\$2 | — | 100 | Property development |
| Full Success Investments Limited | Hong Kong | HK\$2 | | 100 | Property holding |
| GlobalOffering.com Limited | British Virgin Islands | US\$1 | — | 70 | Provision of online marketing and roadshow services for the investment banking community |
| Goodwill Investment (BVI) Limited | British Virgin Islands | US\$100 | 100 | — | Investment holding |
| Goodwill Properties (Holdings) Limited | British Virgin Islands | US\$1 | — | 100 | Investment holding |
| Goodwill Properties Limited | Hong Kong | HK\$2 | — | 100 | Investment holding |
| Lucky Happy Development Limited | Hong Kong | HK\$100 | | 100 | Property holding |
| OpenOffering Capital Limited | Hong Kong | HK\$20,000,000 | — | 100 | Provision of corporate finance services in Hong Kong |

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment | Particulars of issued/ registered capital | Interest held | | Principal activities |
|------------------------------------|--|--|---------------|---------------|----------------------|
| | | | Direct % | Indirect % | |
| OpenOffering Technology Limited | British Virgin Islands | US\$1,000 | — | 70 | Investment holding |
| Orient World Investment Limited | Hong Kong | HK\$10 | — | 100 | Property development |
| Right Way Holdings Limited | Hong Kong | HK\$10 | — | 70 | Property development |

Note:

- (a) The non-voting deferred shares are not owned by the Group. These non-voting deferred shares carry no voting rights and holders are not entitled to participate in the profits of the Company.

The Company's principal subsidiaries listed above principally operate in Hong Kong. The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of all other subsidiaries of the Company would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding as at 31 December 2003, or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN ASSOCIATED COMPANIES

| | Group | |
|---|--------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 110,143 | 99,799 |
| Loans to associated companies (note 21) | 1,700 | 1,335 |
| Loans from associated companies (note 23) | (242) | (172) |
| | <u>1,458</u> | <u>1,163</u> |

The loans to/from associated companies are unsecured, interest free and have no fixed terms of repayment.

At 31 December 2003, the Company held interests in the following principal associated companies:

| Name | Place of incorporation/ registration | Interest held indirectly % | Principal activities |
|---|---|-------------------------------|---|
| SBI E2-Capital China Holdings Limited | Hong Kong | 49% | Investment holding |
| - SBI E2-Capital (HK) Limited | Hong Kong | 49% | Provision of corporate finance service |
| - SBI E2-Capital Securities Limited | Hong Kong | 49% | Securities broking and margin financing |
| SBI E2-Capital Holdings Limited * | Singapore | 27% | Investment holding |
| - SBI E2-Capital Pte Ltd | Singapore | 27% | Provision of corporate finance service |
| - SBI E2-Capital Securities Pte Ltd | Singapore | 38% | Securities broking |
| Winbox Company Limited | Hong Kong | 38% | Manufacture and sale of quality plastic and paper boxes for luxury consumer goods |
| Guangzhou Science Compile & Flourish Environmental Protective Technic Development Co. Limited | The Peoples' Republic of China | 40% | Provision of drinking water filtration services |

* Following the completion of its initial public offer, SBI E2-Capital Holdings Limited ("SBI E2-Capital Singapore") was listed on the Singapore Exchange on 21 January 2004 and the Group's interest in SBI E2-Capital Singapore was reduced to 22% on that date.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENTS IN ASSOCIATED COMPANIES (Continued)

The principal place of operation of each company listed above is the same as its place of incorporation/registration.

To give details of all other associated companies of the Group would, in the opinion of the directors, result in particulars of excessive length.

The summary of financial information of the SBI E2-Capital China Holdings Limited ("SBI E2-Capital China"), SBI E2-Capital Singapore and Winbox Company Limited ("Winbox") for the year ended 31 December 2003 is as follows:

| | SBI E2-Capital China For the year ended 31 December 2003 HK\$'000 | SBI E2-Capital Singapore For the year ended 31 December 2003 HK\$'000 | Winbox For the year ended 31 December 2003 HK\$'000 |
|------------------------------|--|--|--|
| Consolidated profit and loss | | | |
| Turnover | <u>67,138</u> | <u>62,608</u> | <u>89,981</u> |
| Profit before taxation | <u>18,720</u> | <u>28,342</u> | <u>24,004</u> |
| As at 31 December 2003 | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Consolidated balance sheet | | | |
| Total assets | 340,066 | 96,666 | 209,695 |
| Total liabilities | <u>279,618</u> | <u>53,313</u> | <u>14,657</u> |
| Total net assets | <u>60,448</u> | <u>43,353</u> | <u>195,038</u> |

In 2003, an equity compensation scheme ("Scheme") was adopted whereunder 30% interest in SBI E2-Capital China has been set aside for the purpose of permitting eligible group employees to participate in the equity of SBI E2-Capital China. The value of interest vested in the Scheme is recognized in the results of the associated companies.

Winbox has a financial accounting period of 31 March which is not coterminous with the Group.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SECURITIES

| | Group | |
|---|---------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Investment securities | | |
| Equity securities | | |
| Listed in Hong Kong, at cost | — | 70,111 |
| Less: provision for impairment loss | — | (60,524) |
| | <u>—</u> | <u>9,587</u> |
| Unlisted, at cost | 30,871 | 42,799 |
| Less: provision for impairment loss | (17,544) | (15,821) |
| | <u>13,327</u> | <u>26,978</u> |
| Unlisted debt securities, at cost | 6,354 | 1,354 |
| Total carrying amount of investment securities | <u>19,681</u> | <u>37,919</u> |
| Market Value of listed securities | <u>—</u> | <u>9,587</u> |
| Investment securities analysed for reporting purpose: | | |
| Current | — | — |
| Non-current | 19,681 | 37,919 |
| | <u>19,681</u> | <u>37,919</u> |

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SECURITIES (Continued)

| | Group | |
|---|---------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Other investments | | |
| Equity securities, at fair value | | |
| Listed in Hong Kong | 21,406 | 8,829 |
| Listed overseas | — | 434 |
| Total carrying amount of other investments | <u>21,406</u> | <u>9,263</u> |
| Market value | | |
| Listed equity securities | <u>21,406</u> | <u>9,263</u> |
| Other investments analysed for reporting purpose: | | |
| Current | 18,660 | 461 |
| Non-current | 2,746 | 8,802 |
| | <u>21,406</u> | <u>9,263</u> |
| Total investments in securities | <u>41,087</u> | <u>47,182</u> |
| Total investments in securities analysed for reporting purpose: | | |
| Current | 18,660 | 461 |
| Non-current | 22,427 | 46,721 |
| | <u>41,087</u> | <u>47,182</u> |
| | | |
| | Company | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Investment securities | | |
| Unlisted equity shares at cost | 9,960 | 17,760 |
| Less: provision for impairment loss | (9,771) | (14,451) |
| | <u>189</u> | <u>3,309</u> |

NOTES TO THE FINANCIAL STATEMENTS

17. MORTGAGE LOANS RECEIVABLE

| | Group | |
|--|---------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Due within one year | 629 | 1,157 |
| Due after one year | 21,896 | 27,533 |
| | 22,525 | 28,690 |
| Less: Provision for doubtful receivables | (1,400) | (1,400) |
| | <u>21,125</u> | <u>27,290</u> |

The mortgage loans receivable are secured by sub-mortgages of second ranking on certain residential properties in Hong Kong and bear interest at commercial rate.

18. OTHER NON-CURRENT ASSETS

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Statutory and other deposits relating to the securities dealing businesses | 100 | 150 | — | — |
| Chinese antiques | 2,017 | 2,017 | 2,017 | 2,017 |
| Other deposits | 125 | 125 | — | — |
| | <u>2,242</u> | <u>2,292</u> | <u>2,017</u> | <u>2,017</u> |

NOTES TO THE FINANCIAL STATEMENTS

19. PROPERTIES FOR SALE/PROPERTIES UNDER DEVELOPMENT FOR SALE

| | Group | |
|--|-----------------------|-----------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Cost | | |
| At 1 January | 153,120 | 93,984 |
| Additions | 65,845 | — |
| Disposals | (23,358) | (66,597) |
| Reclassified from fixed assets | 119,308 | — |
| Reclassified from properties under development | — | 125,733 |
| At 31 December | <u>314,915</u> | <u>153,120</u> |
| Provision | | |
| At 1 January | 9,614 | 21,466 |
| Additions | 23,012 | 3,359 |
| Disposals | (6,930) | (15,211) |
| Reclassified from fixed assets | 57,308 | — |
| At 31 December | <u>83,004</u> | <u>9,614</u> |
| Net book value | <u><u>231,911</u></u> | <u><u>143,506</u></u> |

As at 31 December 2003, interest expense capitalised in the cost of properties for sale and properties under development for sale amounted to HK\$6,371,000 (2002: HK\$6,609,000).

At 31 December 2003, the properties for sale of HK\$62,450,000 and properties under development for sale of HK\$169,461,000 are situated in Hong Kong and are held under long term lease and medium term lease respectively.

Subsequent to year end, properties sold with proceeds of HK\$189,007,000 were collected and applied towards the repayment of bank loan, as well as construction costs and marketing and advertising expenses.

NOTES TO THE FINANCIAL STATEMENTS

20. INVENTORIES

| | Group | |
|----------------|----------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Finished goods | 7,414 | 8,573 |

21. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|--|---------------|---------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Due from: | | | | |
| Subsidiaries | — | — | 632,843 | 700,288 |
| Unconsolidated subsidiaries | — | 729 | — | — |
| Associated companies | 1,700 | 1,335 | 1,147 | 1,016 |
| Trade receivables | 11,372 | 11,332 | — | — |
| Other receivables, prepayments and deposits | 21,774 | 31,083 | 19,876 | 21,108 |
| | <u>34,846</u> | <u>44,479</u> | <u>653,866</u> | <u>722,412</u> |

The Group allows an average credit period of 60-90 days to trade debtors.

The ageing analysis of the trade receivables is as follows:

| | Group | |
|--------------|---------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| 0-60 days | 6,114 | 5,077 |
| 61-90 days | 2,019 | 1,458 |
| Over 90 days | 3,239 | 4,797 |
| | <u>11,372</u> | <u>11,332</u> |

NOTES TO THE FINANCIAL STATEMENTS

22. BANK BALANCES AND CASH

| | Group | |
|--------------------------|----------------|----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| The balance consists of: | | |
| General account | <u>154,518</u> | <u>126,766</u> |

23. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---------------|---------------|------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Due to: | | | | |
| An affiliated company | — | 17 | — | 17 |
| Subsidiaries | — | — | 1,182,577 | 1,105,605 |
| Associated companies | 242 | 172 | — | 172 |
| Trade payables | 7,497 | 5,506 | — | — |
| Other accounts payables and accruals | <u>31,873</u> | <u>30,323</u> | <u>2,885</u> | <u>10,004</u> |
| | <u>39,612</u> | <u>36,018</u> | <u>1,185,462</u> | <u>1,115,798</u> |

The ageing analysis of trade payables is as follows:

| | Group | |
|--------------|--------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| 0-60 days | 3,837 | 2,683 |
| 60-90 days | 1,806 | 985 |
| Over 90 days | 1,854 | 1,838 |
| | <u>7,497</u> | <u>5,506</u> |

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE CAPITAL

Share capital

| | No. of shares | Nominal value US\$'000 |
|---|----------------------|---------------------------|
| Authorised: | | |
| At 31 December 2002 and 31 December 2003 | 2,000,000,000 | <u>200,000</u> |
| | | HK\$'000 |
| Capital Reorganisation on 19 June 2003: | | |
| Share consolidation <i>(note (a))</i> | (1,000,000,000) | — |
| Currency redenomination <i>(note (b))</i> | — | 1,560,000 |
| Capital reduction <i>(note (c))</i> | — | (560,000) |
| Cancellation of the entire authorised but unissued share capital <i>(note (d))</i> | (427,666,832) | (427,667) |
| Increase in authorised share capital <i>(note (d))</i> | <u>177,666,832</u> | <u>177,667</u> |
| At 31 December 2003 | <u>750,000,000</u> | <u>750,000</u> |
| | No. of shares | Nominal value US\$'000 |
| Issued and fully paid | | |
| At 1 January 2002 (ordinary share of US\$0.10 each) | 1,145,524,336 | 114,553 |
| Repurchase of shares | <u>(858,000)</u> | <u>(86)</u> |
| At 31 December 2002 and 1 January 2003 | 1,144,666,336 | <u>114,467</u> |
| | | HK\$'000 |
| Share consolidation <i>(note (a))</i> | <u>(572,333,168)</u> | — |
| Currency redenomination <i>(note (b))</i> | 572,333,168 | 892,840 |
| Capital reduction <i>(note (c))</i> | — | <u>(320,507)</u> |
| At 31 December 2003 | <u>572,333,168</u> | <u>572,333</u> |

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE CAPITAL (Continued)

| | 2003 | 2002 |
|--------------------------------------|----------------|----------------|
| | HK\$'000 | HK\$'000 |
| Shown in the financial statements as | <u>572,333</u> | <u>892,840</u> |

Note:

By a special resolution passed on 18 June 2003, the Company effected the following exercise (referred to as "Capital Reorganisation") on 19 June 2003 pursuant to which:

- (a) every two (2) issued and unissued shares in the Company were consolidated into one (1) consolidated shares;
- (b) the currency denomination of all of the consolidated shares was changed from US\$0.20 into HK\$1.56 on the basis of US\$1.00 into HK\$7.80;
- (c) the nominal value of all the redenominated shares was reduced from HK\$1.56 to HK\$1.00 each by the cancellation of the HK\$0.56 of the paid-up capital on each issued redenominated share;
- (d) the entire authorised but unissued share capital, including the share capital arising from the capital reduction was cancelled and subsequently increased by the creation of such number of new shares as was necessary to bring the authorised share capital to HK\$750,000,000 divided into 750,000,000 new shares; and
- (e) the credit of HK\$320,507,000 arising from the captioned reduction on the basis of 1,144,666,336 shares in issue was transferred to a contributed surplus account of the Company, where it may be utilised in accordance with the Bye-laws of the Company and all applicable laws, including elimination of the accumulated losses of the Company.

Share option scheme

No share option scheme has been adopted by the Company since the expiration of the previous share option scheme on 14 December 2002.

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES

| | Contributed surplus HK\$'000 | Other reserve HK\$'000 | Group (Goodwill)/ capital reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------------|------------------------------|--|-----------------------------------|-------------------|
| At 1 January 2002 | 219,943 | 2,933 | (9,499) | (114,359) | 99,018 |
| Goodwill realised on disposal of subsidiaries | — | — | 9,499 | — | 9,499 |
| Reserve arising from shares repurchased | — | 436 | — | — | 436 |
| Loss for the year | — | — | — | (351,678) | (351,678) |
| 2001 Final dividend paid | (2,864) | — | — | — | (2,864) |
| 2002 Interim dividend paid | (2,862) | — | — | — | (2,862) |
| | <u>214,217</u> | <u>3,369</u> | <u>—</u> | <u>(466,037)</u> | <u>(248,451)</u> |
| At 31 December 2002 | | | | | |
| Representing:- | | | | | |
| Company and subsidiaries | 214,217 | 3,369 | — | (447,776) | (230,190) |
| Associated companies | — | — | — | (18,261) | (18,261) |
| | <u>214,217</u> | <u>3,369</u> | <u>—</u> | <u>(466,037)</u> | <u>(248,451)</u> |
| At 31 December 2002 | | | | | |

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES (Continued)

| | Group | | | Total HK\$'000 |
|--|------------------------------------|------------------------------|-----------------------------------|-------------------|
| | Contributed surplus HK\$'000 | Other reserve HK\$'000 | Accumulated losses HK\$'000 | |
| At 1 January 2003 | 214,217 | 3,369 | (466,037) | (248,451) |
| Capital reorganisation (<i>note 24</i>) | 320,507 | — | — | 320,507 |
| Transfer from contributed surplus to accumulated losses (<i>note (a)</i>) | (452,279) | — | 452,279 | — |
| Loss for the year | — | — | (124,398) | (124,398) |
| | <u>82,445</u> | <u>3,369</u> | <u>(138,156)</u> | <u>(52,342)</u> |
| At 31 December 2003 | | | | |
| Representing:- | | | | |
| Company and subsidiaries | 82,445 | 3,369 | (134,650) | (48,836) |
| Associated companies | — | — | (3,506) | (3,506) |
| | <u>82,445</u> | <u>3,369</u> | <u>(138,156)</u> | <u>(52,342)</u> |
| At 31 December 2003 | | | | |

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES (Continued)

| | Contributed surplus HK\$'000 | Other reserve HK\$'000 | Company Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|--|------------------------------------|------------------------------|---|-------------------|
| At 1 January 2002 | 137,498 | 1,748 | 154,160 | 293,406 |
| Reserve arising from shares repurchased | — | 436 | — | 436 |
| Loss for the year | — | — | (284,783) | (284,783) |
| 2001 Final dividend paid | (2,864) | — | — | (2,864) |
| 2002 Interim dividend paid | (2,862) | — | — | (2,862) |
| At 31 December 2002 | <u>131,772</u> | <u>2,184</u> | <u>(130,623)</u> | <u>3,333</u> |
| At 1 January 2003 | 131,772 | 2,184 | (130,623) | 3,333 |
| Capital reorganisation (<i>note 24</i>) | 320,507 | — | — | 320,507 |
| Transfer from contributed surplus to accumulated losses (<i>note (a)</i>) | (452,279) | — | 452,279 | — |
| Loss for the year | — | — | (112,795) | (112,795) |
| At 31 December 2003 | <u>—</u> | <u>2,184</u> | <u>208,861</u> | <u>211,045</u> |

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES (Continued)

Note:

(a) The Company's contributed surplus represents the difference between net assets of the companies acquired as at 15 December 1992 and the aggregate nominal value of shares issued by the Company under the scheme of arrangement which became effective on that date, less dividend paid and payable from this financial statement thereafter. The Group's contributed surplus represents credit arising from the reorganisation pursuant to the scheme of arrangement. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus account if:

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

By a special resolution passed on 18 June 2003, the full amount of contributed surplus of the Company has been transferred to accumulated losses.

(b) Other reserve of the Company arose as a result of repurchase of the Company's listed securities and represents the excess of the nominal value of the shares repurchased over the consideration paid.

(c) In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 December 2003 were as follows:

| | HK\$'000 |
|------------------|----------------|
| Other reserve | 2,184 |
| Retained profits | <u>208,861</u> |
| | <u>211,045</u> |

NOTES TO THE FINANCIAL STATEMENTS

26. LONG-TERM LIABILITIES

| | Group | |
|--|------------------|-----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Bank Loans | | |
| Secured | 119,209 | 114,355 |
| Other loans | | |
| Secured | 1,809 | 2,130 |
| | <u>121,018</u> | <u>116,485</u> |
| Current portion of long-term liabilities | <u>(104,536)</u> | <u>(93,801)</u> |
| | <u>16,482</u> | <u>22,684</u> |
| The analysis of the above is as follows: | | |
| Bank loans | | |
| Wholly repayable within five years | 119,209 | 114,355 |
| Not wholly repayable within five years | — | — |
| Other loans | | |
| Wholly repayable within five years | — | — |
| Not wholly repayable within five years | 1,809 | 2,130 |
| | <u>121,018</u> | <u>116,485</u> |
| Current portion of long-term liabilities | <u>(104,536)</u> | <u>(93,801)</u> |
| | <u>16,482</u> | <u>22,684</u> |

NOTES TO THE FINANCIAL STATEMENTS

26. LONG-TERM LIABILITIES (Continued)

Other loans not wholly repayable within five years are repayable by instalments from 1 January 2002 to 30 November 2018. Interest is charged on the outstanding balances at Prime +1.5% p.a. (2002: Prime +1.5% p.a.).

At 31 December 2003, the Group's bank loans and other loans were repayable as follows:

| | Bank loans | | Other loans | |
|----------------------------|----------------|----------------|--------------|--------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 104,459 | 93,705 | 77 | 96 |
| In the second year | 5,900 | 5,900 | 77 | 96 |
| In the third to fifth year | 8,850 | 14,750 | 231 | 288 |
| After the fifth year | — | — | 1,424 | 1,650 |
| | <u>119,209</u> | <u>114,355</u> | <u>1,809</u> | <u>2,130</u> |

Subsequent to year end, bank loan repayable within one year of HK\$74 million has been repaid out of the proceeds collected from the sale of villas in the Greenery Gardens project which is presented under properties for sale in the balance sheet.

27. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The loan from a minority shareholder of a subsidiary is unsecured, non-interest bearing and will be repaid in the next twelve months and has been reclassified to current liabilities in the current year.

NOTES TO THE FINANCIAL STATEMENTS

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash (outflow)/inflow from operating activities

| | 2003 | 2002 |
|--|-----------------|---------------|
| | HK\$'000 | HK\$'000 |
| Loss before taxation | (121,653) | (357,883) |
| Share of results of associates | (17,565) | (5,133) |
| Depreciation | 2,260 | 4,558 |
| Amortisation of goodwill | — | 1,561 |
| Dividend income from associated companies | 4,411 | 3,800 |
| Gain on disposal of discontinued operations | — | (12,189) |
| Gain on disposal of interests in subsidiaries (net) | — | (820) |
| Provision for impairment of investments in securities | 16,687 | 30,171 |
| Realised and unrealised loss on investment in securities (net) | 5,480 | 121,913 |
| Loss on disposal of fixed assets | 1,782 | 618 |
| Provision for loans receivables | 3,018 | 4,520 |
| Provision for impairment of assets | 85,881 | 190,338 |
| (Increase)/decrease in properties for sale/properties under development for sale | (29,417) | 51,386 |
| Decrease/(increase) in inventories | 1,159 | (1,762) |
| Decrease in trade and other receivables | 6,615 | 1,536 |
| (Decrease)/increase in trade and other payables | (16,406) | 2,590 |
| Interest income | (1,633) | (2,652) |
| Interest expenses | 2,746 | 3,890 |
| Net cash (outflow)/inflow from operation | (56,635) | 36,442 |
| Interest income | 1,633 | 2,652 |
| Net cash (outflow)/inflow from operating activities | <u>(55,002)</u> | <u>39,094</u> |

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Analysis of changes in financing during the year

| | Share capital and other reserve | | Bank loans and other loans | | Minority interests | |
|---|---------------------------------------|----------------|-------------------------------|----------------|--------------------|------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January | 896,209 | 896,442 | 136,551 | 142,582 | 192 | 8,913 |
| New loans raised | — | — | 74,369 | 19,079 | — | — |
| Minority interests in share of profits/(losses) | — | — | — | — | 272 | (4,786) |
| Minority interests attributed to associated companies | — | — | — | — | (303) | (2,566) |
| Shares repurchased and cancelled | — | (233) | — | — | — | — |
| Decrease in minority interests upon disposal of subsidiaries | — | — | — | — | — | (1,369) |
| Repayment during the year | — | — | (69,836) | (25,110) | — | — |
| Other movements not involving cash flows: | | | | | | |
| Capital reorganisation (note 24) | (320,507) | — | — | — | — | — |
| At 31 December | <u>575,702</u> | <u>896,209</u> | <u>141,084</u> | <u>136,551</u> | <u>161</u> | <u>192</u> |

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

(c) Major non-cash transactions

On 18 December 2001, the Company entered into a sale and purchase agreement with Softbank Strategic in relation to the disposal of the Group's entire equity interest in ebizal Investments Limited (subsequently renamed as ebizal (Holdings) Limited), an indirect wholly-owned subsidiary of the Company, for a total consideration of approximately HK\$68.1 million. The total consideration was satisfied as to (i) approximately HK\$51.9 million by way of disposal of Softbank Strategic to the Group of its entire equity interests in Cheung Wah Ho Dyestuffs Company Limited, Full Success Investments Limited, Lancerwide Company Limited and Lucky Happy Development Limited, all of which are wholly-owned subsidiaries of Softbank Strategic, and the assignment of Softbank Strategic to the Group of the loans by Softbank Strategic to Softbank Companies, the aggregate of which amounted to approximately HK\$62.7 million; and (ii) a sum of approximately HK\$16.2 million in cash. The transaction was completed on 24 January 2002.

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Sale of subsidiaries

No subsidiaries were disposed of during the year. Subsidiaries disposed of in 2002 contributed approximately HK\$13,254,000 to the Group's turnover and approximately HK\$2,128,000 to the Group's operating profit.

| | 2002 |
|---|----------------|
| | HK\$'000 |
| Net assets disposed of: | |
| Fixed assets | 684 |
| Investment in securities | 16,800 |
| Loans receivable from investee companies | 30,000 |
| Inventories | 5,963 |
| Trade and other receivables | 20,299 |
| Bank balances | 3,007 |
| Trade and other payables | (28,449) |
| Minority interests | (1,369) |
| | <u>46,935</u> |
| Gain on disposal | 13,009 |
| Goodwill realised on disposal | 9,499 |
| | <u>69,443</u> |
| Satisfied by: | |
| Interest in associated company | 313 |
| Interest in subsidiaries | 51,495 |
| Cash | 17,635 |
| | <u>69,443</u> |
| Analysis of the net outflow in respect of the sale of subsidiaries: | |
| Cash consideration | 1,435 |
| Bank balances disposed of | (3,007) |
| | <u>(1,572)</u> |

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Purchase of subsidiaries

No subsidiaries were acquired in 2003. The results of the subsidiaries acquired in 2002 and their net assets as at 31 December 2002 attributable to the Group were a profit of HK\$3,218,000 and HK\$54,713,000 respectively.

| | 2002 |
|--|---------------|
| | HK\$'000 |
| Net assets acquired | |
| Fixed assets | 38,058 |
| Inventories | 8,574 |
| Trade and other receivables | 8,298 |
| Bank balances and cash | 5,263 |
| Trade and other payables | (8,698) |
| | <u>51,495</u> |
| Satisfied by | |
| Interest in subsidiaries | <u>51,495</u> |
| Analysis of the net inflow in respect of the purchase of subsidiaries: | |
| Bank balances and cash in hand acquired | <u>5,263</u> |

NOTES TO THE FINANCIAL STATEMENTS

29. DEFERRED TAXATION

At 31 December 2003, the Group has an estimated unused tax losses of HK\$419,655,000 (2002: HK\$363,699,000) 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 can be carried forward indefinitely.

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 and also the Company and its operating subsidiaries have substantial accumulated tax losses which are available for set off such deferred tax liability.

30. CONTINGENT LIABILITIES

- (a) Corporate guarantees proportionate to the Group's interest were given to financial institutions for working capital facilities of associated companies in addition to collaterals given by these companies. The aggregate amount of such facilities utilised by these companies, together with the corporate guarantees given by the Company to its subsidiary companies, at 31 December 2003 were as follows:

| | Group | | Company | |
|----------------------|--------------|--------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Subsidiary companies | — | — | 119,209 | 114,355 |
| Associated companies | 5,750 | 7,471 | 5,750 | 7,471 |
| | <u>5,750</u> | <u>7,471</u> | <u>124,959</u> | <u>121,826</u> |

- (b) In addition, the Company provided letters of undertaking to the Monetary Authority of Singapore ("MAS") in respect of the obligations and liabilities of an indirect associated company of the Company, SBI E2-Capital Pte Limited ("SBI Pte") and SBI E2-Capital Securities Pte Limited. As at 31 December 2003, the shareholders' fund and total liabilities of SBI Pte were HK\$29 million and HK\$17 million respectively; the shareholders' funds and the total liabilities of SBI Securities Pte were HK\$28 million and HK\$21 million respectively.
- (c) For the purpose of the banking facilities of the SBI E2-Capital Group with a bank, a letter of undertaking was issued by the Group which undertakes to maintain the minimum net worth of no less than HK\$300 million at all times for the financial statements of SBI E2-Capital Commodities Limited, SBI E2-Capital Brokerage Limited and SBI E2-Capital Securities Limited, subsidiaries of SBI E2-Capital Group.

NOTES TO THE FINANCIAL STATEMENTS

30. CONTINGENT LIABILITIES (Continued)

- (d) In 1997, the Group acquired a number of businesses (the "Flourmills Businesses") which are principally engaged in the manufacture and sale of flour in the People's Republic of China for a consideration of approximately HK\$45,060,000. The Group does not have control over the financial and operating policies of the Flourmills Businesses. Accordingly, they have not been consolidated. In addition, upon acquisition of the Flourmills Businesses, the Group's stated intention was not to hold more than 50% equity interest of the Flourmills Businesses for long term. This intention remains and the Group has continued during the last five years to actively negotiate with potential investors for the disposal of the other 50% equity interest in the Flourmills Businesses.

The Group's investment in these businesses had been written down to zero and in the opinion of the directors, the Group has no further obligations in respect of the net liabilities. Accordingly the directors consider that provision for obligations in respect of the net liabilities of these businesses is not necessary. In addition, as a result of the extended time taken to pursue the sale of these assets, the directors considered it prudent to write off the entire cost of investment in the Flourmills Businesses. The Group is currently in the process of actively pursuing the recovery of assets of the Flourmills Businesses.

31. COMMITMENTS

Commitments under operating leases

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

| | 2003 | 2002 |
|-------------------------|-----------------------------------|-----------------------------------|
| | Land and buildings HK\$'000 | Land and buildings HK\$'000 |
| Not later than one year | — | 453 |

The Company did not have any other commitments at 31 December 2003. (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

32. FUTURE OPERATING LEASE ARRANGEMENTS

As at 31 December 2003, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

| | Group | |
|---|--------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Not later than one year | 1,138 | 2,219 |
| Later than one year and not later than five years | 1,090 | 1,401 |
| | <u>2,228</u> | <u>3,620</u> |

NOTES TO THE FINANCIAL STATEMENTS

33. DISCONTINUED OPERATIONS

On 24 January 2002, the Group sold its entire equity interest in ebizal Investments Limited (subsequently renamed as ebizal (Holdings) Limited) which engaged in the consulting, marketing & technology services segment.

The sales, results, cash flows and net assets of the consulting, marketing & technology services segment for the period ended 23 January 2002 were as follows:

| | For the period from 1.1.2002 to 23.1.2002 |
|-----------------------------|--|
| | HK\$'000 |
| Turnover | 13,254 |
| Operating costs | (11,126) |
| Operating profit | 2,128 |
| Finance costs | (4) |
| Profit before tax | 2,124 |
| Tax | — |
| Profit after tax | 2,124 |
| Minority interest | (20) |
| | <u>2,104</u> |
| Cash outflow in respect of: | |
| Operating activities | <u>(3,451)</u> |
| Fixed assets | 569 |
| Investment in securities | 16,800 |
| Loan to investee companies | 30,000 |
| Current assets | 29,896 |
| Total assets | 77,265 |
| Total liabilities | (30,853) |
| | <u>46,412</u> |
| Goodwill realised | <u>9,499</u> |

NOTES TO THE FINANCIAL STATEMENTS

34. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

| | Note | Group | |
|---|------|----------|----------|
| | | 2003 | 2002 |
| | | HK\$'000 | HK\$'000 |
| Management fees received | (a) | 1,227 | 4,456 |
| Rental received for sharing of office space | (b) | — | 1,782 |
| Management fee paid | (c) | 500 | 980 |

- (a) The Group performed certain administrative services for the SBI E2-Capital Group in which the Group has a 49% interest as at 31 December 2003. Management fees calculated on pre-agreed terms were charged to the SBI E2-Capital Group.
- (b) The Group received rental from SBI E2-Capital Group for sharing of office space in 2002. In accordance with an agreement entered into by both parties, rental was calculated based on the actual rental paid by the Group to the landlord and the office space taken up by the SBI E2-Capital Group. The agreement was terminated in 2003.
- (c) SBI E2-Capital Group performed certain administrative services for the Group. Management fees were calculated on a pre-agreed term.
- (d) On 7 January 2003, the Company has given an undertaking to the MAS as a condition of MAS agreeing to grant a Capital Markets Services Licence to SBI Pte. The Company undertakes to maintain SBI Pte in a sound liquidity and a sound financial position at all times and meet, pay and settle all obligations and liabilities of SBI Pte during the existence of the undertaking.

On 4 April 2003, the Company has given an undertaking to the MAS as a condition of MAS agreeing to grant a Capital Markets Services Licence to SBI Securities Pte. The Company undertakes to maintain SBI Securities Pte in a sound liquidity and a sound financial position at all times. Also, it undertakes to meet, pay and settle all obligations and liabilities of SBI Securities Pte.

The Company and Softbank Investment International (Strategic) Limited ("Softbank Strategic") have agreed between themselves that their respective responsibilities for the obligations and liabilities of SBI Pte and SBI Securities Pte should be determined by reference to their previous respective shareholdings in SBI E2-Capital Limited. Accordingly, the Company has agreed to indemnify Softbank Strategic for 49% of any claim under a similar undertaking given to MAS by Softbank Strategic and Softbank Strategic has agreed to indemnify the Company for 51% of any claim under the undertaking given by the Company.

35. SUBSEQUENT EVENTS

On 21 January 2004, SBI E2-Capital Holdings Limited ("SBI E2-Capital Singapore"), an associated company of the Group, was listed on the Singapore Exchange. The Group's interest in SBI E2-Capital Singapore was reduced from 27% to 22% on that date.

On 19 March 2004, the Board approved to put forward a capital reorganisation exercise pursuant to which every ten shares in the Company be consolidated into seven shares for shareholders' approval at the coming Annual General Meeting. The credit of HK\$171,700,000 arising from the captioned capital reorganisation exercise will be transferred to a contributed surplus account of the Company, where it may be utilised in accordance with the Bye-laws of the Company and all applicable laws.

36. APPROVAL OF FINANCIAL STATEMENTS

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