

## CORPORATE INFORMATION

### **Board of Directors**

FUNG Ka Pun

*(Executive Co-Chairman)*

WONG Sin Just

*(Executive Co-Chairman)*

ONGPIN Roberto V

*(Independent Non-executive Director)*

CHUNG Cho Yee, Mico

*(Independent Non-executive Director)*

### **Company Secretary**

CHEUNG Chung Wai, Billy

### **Solicitors**

Kwok & Yih

Woo, Kwan, Lee & Lo, Solicitors

### **Auditors**

PricewaterhouseCoopers

### **Principal Bankers**

The Hongkong and Shanghai Banking

Corporation Limited

Standard Chartered Bank

(Hong Kong) Limited

### **Share Registrar in Bermuda**

Butterfield Corporate Services Limited

65 Front Street,

Hamilton,

Bermuda

### **Share Registrar in Hong Kong**

Computershare Hong Kong Investor

Services Limited

Rooms 1901-1905, 19th Floor,

Hopewell Centre,

183 Queen's Road East,

Hong Kong

### **Registered Office**

Canon's Court,

22 Victoria Street,

Hamilton HM12,

Bermuda

### **Principal Place of Business in Hong Kong**

43/F, Jardine House,

One Connaught Place,

Central,

Hong Kong

The Directors of E2-Capital (Holdings) Limited (“the Company”) present herewith the Interim Report of the Company and its subsidiaries (“the Group”) together with the condensed financial statements for the six months ended 30 June 2004. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2004 and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 12 to 29 of this report.

## **INTERIM DIVIDEND**

The directors have decided to declare an interim dividend of 5 HK cents per share for the six months ended 30 June 2004 (2003: nil) which will be payable on Friday, 24 September 2004 to those persons registered as shareholders of the Company on Thursday, 23 September 2004. The Register of Members will be closed from Monday, 20 September 2004 to Thursday, 23 September 2004, both days inclusive during which period no transfer of share will be effected. In order to qualify for the proposed distribution, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:00 p.m. on Friday, 17 September 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

As one of the most important cities in the Asia Pacific region, Hong Kong continues to function as a platform for fund raising activities between Chinese enterprises and abroad, especially with the pick up of the market starting from late 2003. As a result of the improvement of the economy and our efforts in streamlining the Group’s operating structure, the Group recorded a profit attributable to shareholders for the period ended 30 June 2004 of HK\$31,859,000 (2003: loss of HK\$131,284,000), contributed by higher sale from the Group’s Properties Division, and better performance of the investment portfolio as well as improved results of the Group’s associated companies.

With the realization from sale of properties under development and cash return from investments as well as effective Group cash management, bank and cash balance increased further by 29% to HK\$200 million at 30 June 2004, compared with HK\$155 million at 31 December 2003.

Liquidity of the Group is satisfactory, with a quick ratio of 4.89 times at 30 June 2004 when compared with 1.27 times at 31 December 2003, calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over total current liabilities. Moreover, consolidated shareholders’ funds increased to HK\$552 million at 30 June 2004, with net tangible assets per share of HK\$1.38 (HK\$1.30 at 31 December 2003 as restated) as a result of the turnaround in the Group’s profit for the period.

We recognize the importance of enhancing financial resources flexibility, with the Parent Company further increasing its cash and bank balance to HK\$155 million as at 30 June 2004 (HK\$126 million at 31 December 2003). We believe this high level of financial resources will place the Group in a strong position to meet the demands of an increasingly complex business landscape.

## Financial Services

### HK/CHINA

The Hong Kong/China division, SBI E2-Capital China Holdings Limited, made a net profit before tax of HK\$3.4 million for the six months ended 30 June 2004, compared with a net profit before tax of HK\$0.4 million for the same period in preceding year. The momentum of improvement notably increased in the first quarter of 2004. Thanks to the sharp increase in stock trading activity in the first quarter of 2004, the average daily turnover on the Hong Kong Main and GEM boards soared 138%, from HK\$7.06 billion in the first half of 2003 to HK\$16.8 billion in the first half of 2004. Notwithstanding a significant increase in turnover and improvement in results, the division continues to exercise vigilance over its operating cost and risk management. To better meet these objectives, the division is reviewing its management information system with the view of upgrading its information technology capability by the end of 2004.

We are glad that our clients have recognized our contribution and showed support during the period. We were recognized as the Best Local Broker - Hong Kong by *Asiamoney*, and Top Hong Kong/China Local Brokerage House - First Runner Up by *The Asset Magazine* in November 2003. In addition, we are recognized as the Best Domestic Equity House by *Asiamoney* in May 2004.

#### *Stock and futures broking*

Gross commission from securities and futures broking business increased marginally from HK\$15.2 million for the six months ended 30 June 2003 to HK\$15.3 million for the six months ended 2004. However, stringent cost control measures helped increase net profit before tax by 27% to HK\$2.2 million for the six months ended 30 June 2004 as compared with HK\$1.7 million for the same period in 2003.

#### *Investment banking*

The corporate finance and advisory business showed improvement with a net profit before tax HK\$1.9 million for the six months ended 30 June 2004 as compared with a loss of HK\$200,000 for the six months ended 30 June 2003.

#### *Margin financing*

With the adoption of an effective credit policy, no significant provision was made for bad and doubtful debts of margin clients. The division will continue to exercise prudence and selectively extending facility to quality clients.

## *Research*

First half of 2004 was a relative difficult period for stock picking since Hong Kong stock market has started to consolidate from March 2004. Small caps were in general out of favour during the period with many industrial stocks underperforming the Hang Seng Index due to concerns on rising raw material prices. Our research team has begun to relocate coverage resources to technology-related and domestic consumption stocks since the fourth quarter of 2003. This has paid off for us as Hong Kong retail stocks in particular have been under the spotlight due to the increased spending brought by the influx of mainland tourists. For the second half of 2004, we will add selective H shares coverage to complement our existing small/mid cap universe.

## **SINGAPORE**

SBI E2-Capital Holdings Limited (“SBI Singapore”) was successfully listed on the SESDAQ of the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 21 January 2004 and has changed its name to Westcomb Financial Group Limited at its Extraordinary General Meeting on 18 August 2004. The division reported a net profit of S\$4.3 million for the six months ended 30 June 2004, as compared with S\$1.5 million for the same period in 2003. The increase in profit for the current period is mainly attributable to an increase in IPO management fees and equity capital market. Revenue from managing IPO transactions rose by S\$1.3 million or 41% to S\$4.3 million for the six months ended 30 June 2004. For the six months ended 30 June 2004, it was involved in 9 IPO launches as compared with 6 IPO launches for the six months ended 30 June 2003. Coupled with the increase in the number of IPO transactions, revenue from ECM syndication by SBI E2-Capital Securities Pte Limited grew sharply from S\$0.7 million for the six months ended 30 June 2003 to S\$6.4 million for the six months ended 30 June 2004.

Upon its successful listing, the Group has decided to exit from this investment in associated company consistent with the Group’s policy to retain control in units operating under the SBI E2-Capital franchise. On 15 July 2004, SBI Singapore signed a Settlement Agreement with SBI E2-Capital Asia Limited (“SBI Asia”) that both parties have entered a conditional Sale and Purchase Agreement pursuant to which SBI Asia agreed to sell to SBI Singapore and SBI Singapore agreed to acquire (“the Acquisition”) SBI Asia’s entire 49% shareholding interest in SBI E2-Capital Securities Pte Limited for S\$4.9 million. In addition, Goodwill Investment (B.V.I.) Limited (“Goodwill”), a wholly owned subsidiary of E2-Capital, has entered an agreement with Bigfield Investments Limited on 6 August 2004 to dispose of 16,352,324 Shares, representing 10.92% interests, in SBI Singapore at a price of \$0.43 per share. The disposal is scheduled to complete on 24 August 2004 and will generate a gain on disposal of over HK\$20 million to the Group.

## **Industrial**

The Group's industrial business, operated through Cheung Wah Ho Dyestuffs Company Limited and Lancerwide Company Limited, remained steady with a contribution of HK\$18 million (2003: HK\$17 million) to the Group's turnover and reported a loss before tax of HK\$550,000 (2003: HK\$257,000). Due to competitive pressure from mainland China, the industrial business is expected to be challenging in the second half of 2004.

Winbox Company Limited, an associated company of the Group which operated its packaging business principally out of China, remained satisfactory and profitable. For the period ended 30 June 2004, its revenue and net profit before tax was HK\$50 million (2003: HK\$38 million) and HK\$15 million (2003: HK\$8 million) respectively. With the provision of direct services to customers through its associated company in France, together with the high production capacity of its factory in the PRC, sales are expected to increase further.

Both companies are expected to contribute to future group performance.

## **Property**

Goodwill Properties Limited ("GPL"), the Group's property division, was active during the year, both in Hong Kong and the PRC.

Greenery Gardens, the residential development developed by GPL at Fairview Park Boulevard in Yuen Long, was completed. It is recognized as one of the best villas development in the vicinity. The development consists of 30 luxury villas with gross floor area of 6,500 m<sup>2</sup>. Sales and marketing campaign commenced in early 2004 with all units completely sold within a short period. Net cash flow contributed by this development to the Group amounted to HK\$65 million.

GPL is planning to develop a site adjacent to the above development as Greenery Gardens Phase II. Site assembly and planning are in progress.

No. 1 Po Shan Road in Mid-levels, a luxury residential development jointly developed with Sun Hung Kai Properties, was completely sold in 2003 with completion of the last transaction in early 2004. The Group has received its share of sales proceeds.

The property at 32 Lugard Road was sold during the period and the transaction was completed in May 2004. After repayment of bank loan, the Group received net cash of HK\$57 million.

The villas development at Tso Wo Hang in Sai Kung, consisting of two luxury villas with a total gross floor area of 14,000 sq ft and 34,000 sq ft garden, is in progress. The scheduled completion date is mid 2005.

The Group has a 12.5% interest in the Tianma Project in Shanghai, comprising 200 luxury villas, a 27-hole golf course and a country club. The project is in good progress. The golf course and the country club are completed which generate revenue of HK\$39 million during the period. Also, it has achieved remarkable sales of villas and club memberships. We believe the current tightening of monetary policy in the PRC will favour capable property developers in the market. Under current buoyant economic condition in Shanghai, it is expected that the luxury property market will remain very active. This project is expected to contribute to Group's profit in the second half of the year.

GPL is also participating in other property and environment related projects, including a centralized drinking water filtration system, which has been installed in several popular developments in Guangzhou with the current number of customers standing at more than 15,000 households. This project is expected to contribute towards the Group's profitability in the years to come when additional systems are installed at other major cities in the Guangdong province.

## **Liquidity and financial resources**

The Company has provided corporate guarantees for banking facilities extended for group companies, further details are described in the section under "Contingent Liabilities". The Company has stayed debt free with no outstanding bank borrowings at 30 June 2004 (2003: nil).

As at 30 June 2004, the Group's cash and other short-term listed investments totalled HK\$248 million (HK\$173 million at 31 December 2003). Of the total borrowings of HK\$26 million, approximately 93% are loans secured by properties under/for development located in Hong Kong, with the balance secured by mortgage loans receivable. Of these borrowings, HK\$24 million is repayable within 1 year.

The Group has continued to actively manage its financial resources during the period, which resulted in satisfactorily improvement in current liquidity. Quick ratio significantly improved to the level of 4.89 times as at 30 June 2004 as compared with 1.27 times at 31 December 2003, calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over current liabilities. Long term gearing at 30 June 2004, calculated on the basis of long term debt over shareholders' fund, improved further to 0.29% from 3.1% at 31 December 2003.

With cash and marketable securities on hand as well as available banking facilities, the Group's liquidity position has strengthened further and the Group has sufficient financial resources to meet its current commitments and working capital.

## **Capital structure of the group**

By a special resolution passed on 30 April 2004, the Board effected a capital reorganisation exercise pursuant to which every ten shares in the Company be consolidated into seven shares so as to restore the Group's distributable reserve.

Substantially all the transactions of the Group are denominated in Hong Kong dollar and the Group maintains its cash balances mainly in Hong Kong dollar.

The Group's borrowings are all denominated in Hong Kong dollar and on a floating rate basis. As the tenure of a substantial amount of our borrowings is matched against the development period of the projects in progress, the Group has limited exposure to interest rate fluctuations.

## **Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes**

As at 30 June 2004, the Group, including Directors and its subsidiaries but excluding associates, employed a total of 40 full-time employees. The Group operates different remuneration schemes for client service and client support and general staff. Client service personnel are remunerated on the basis of on-target-earning packages comprising salary and/or commission. Client support and general personnel are offered year-end discretionary bonuses subject to individual performance and/or the business result of the Company. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$6 million for the period. The Group ensures that the remuneration paid to its employees is competitive and employees are rewarded within the general framework of the Group's salary and bonus system.

## **Details of the charges on group assets**

As at 30 June 2004, properties under/for development with an aggregate value of approximately HK\$43 million have been pledged to secure banking facilities of HK\$24 million granted to Group companies for these developments.

In addition, a loan of HK\$2 million was secured by mortgage loans receivable of a subsidiary of approximately HK\$2 million.

## **Contingent liabilities**

Corporate guarantees proportionate to the Company's interest were given to financial institutions for working capital facilities of associated companies in addition to collateral given by these companies. The aggregate amount of such facilities utilized by these companies at 30 June 2004 amounted to HK\$4 million.

In addition, the Company provided letters of undertaking to the MAS in respect of the obligations and liabilities of two associated companies of the Group, Westcomb Capital Pte. Ltd. which is formerly known as SBI E2-Capital Pte Ltd ("SBI Pte") and SBI E2-Capital Securities Pte Ltd ("SBI Securities Pte"). As at 30 June 2004, the shareholders' funds and total liabilities of SBI Pte were HK\$46 million and HK\$16 million respectively; the shareholders' funds and the total liabilities of SBI Securities Pte were HK\$32 million and HK\$46 million respectively.

## **Exposure to fluctuations in exchange rates and related hedges**

The Group's assets and liabilities are primarily denominated in Hong Kong dollar. The Group has no significant exposure to foreign exchange fluctuations.

### **In Summary**

With substantial cash flow generated from the sale of properties and investments in securities, the Group has a comparatively high level of financial resources and liquidity. We will continue to exercise a strategic and prudent approach to allocating capital to individual business units, whilst retaining a high level of financial liquidity to ensure strong financial flexibility. We believe such financial flexibility will place us in good stead to capture strategic investment opportunities that may arise in the current business cycle. Going forward, the Group is considering adapting its business model to better take advantage of the skill and expertise available in the Group and the market place such as that adopted by other investment houses similar to a "fund of funds".

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

At 30 June 2004, the interests of each Director and chief executive in the shares of the Company and its Associated Corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) in Hong Kong as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

### The Company

Name of director	Number of shares of the Company held – long positions	
	Personal interests	Corporate interests
Fung Ka Pun	1,540,197	106,018,484 (Note 1)
Wong Sin Just	—	104,335,000 (Note 2)

Name of Associated Corporation	Name of director	Number of shares of the Associated Corporation held – long positions	
		Personal interests	Deemed interests
SBI E2-Capital Limited	Wong Sin Just	6	— (Note 3)
Boxmore Limited	Fung Ka Pun	—	1,477,880 (Note 4)
Winpac Enterprises Limited	Fung Ka Pun	—	50,000 (Note 5)

Notes:

- (1) Mr. Fung Ka Pun has beneficial interests in Bo Hing Limited and Goodwill International (Holdings) Limited ("Goodwill International"), which were interested in 1,862,303 shares and 104,156,181 shares respectively in the Company as at 30 June 2004, representing 26.46% in the issued share capital of the Company. Goodwill International is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders".
- (2) Mr. Wong Sin Just has beneficial interests in e2-Capital Inc., which was interested in 104,335,000 shares in the Company as at 30 June 2004. e2-Capital Inc. is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders".
- (3) Mr. Wong Sin Just holds 6 shares, representing 2% in the share capital of SBI E2-Capital Limited.
- (4) The spouse of Mr. Fung Ka Pun is a beneficiary of the trust which holds 20% interest in the issued share capital of Boxmore Limited.
- (5) The spouse of Mr. Fung Ka Pun holds 50,000 shares, representing 5% in the issued share capital of Winpac Enterprises Limited.

## SHARE OPTION SCHEME

At 30 June 2004, there was no share option scheme adopted by the Company.

At no time during the period was the Company or any of its Associated Corporations a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its Associated Corporations.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2004, the Company had been notified of the following substantial shareholders' interests:

Name of shareholder	Number of shares – long positions	Percentage of issued share capital	Remarks
e2-Capital Inc.	104,335,000	26.04	
Coutts (Cayman) Limited	104,335,000	26.04	} Duplication of e2-Capital Inc.'s holding
Goodwill International	104,156,181	26.00	
Kua Phek Long	25,376,750	6.33	
Softbank Investment International (Strategic) Limited ("Softbank Strategic")	22,750,000	5.68	
Strategic Capital Holdings Limited	22,722,000	5.67	

Other than as disclosed above, as at 30 June 2004, the Company had not been notified of any other interests or short positions in the issued share capital of the Company, as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **CORPORATE GOVERNANCE**

The Company has adopted Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) titled the Model Code for Securities Transactions by Directors of Listed Issuers and having made specific enquiry of all directors, whether the directors have complied with, or whether there has been any non-compliance with, the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions and in the event of any non-compliance with the required standard set out in the Model Code, details of such non-compliance and an explanation of the remedial steps taken by the Company to address such non-compliance.

The Company has complied throughout the six months ended 30 June 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with bye-law 87 of the Company’s New Bye-Laws.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim financial statements for the six months ended 30 June 2004 with the Directors.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

	Note	Unaudited	
		Six months ended 30 June	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	289,552	31,131
Cost of sales		(259,800)	(26,438)
Gross profit		29,752	4,693
Other revenues		1,762	54
Gain on deemed disposal of associated companies		2,806	—
Gain on disposal of associated companies		17	—
Provision for impairment of investments securities (net)		—	(14,687)
Realised and unrealised gain/(loss) on other investments (net)		6,303	(5,773)
Distribution costs		(304)	(164)
General and administrative expenses		(19,163)	(15,522)
Operating profit/(loss) before provision for impairment of long term assets		21,173	(31,399)
Provision for impairment of long term assets	3	—	(98,038)
Operating profit/(loss)	4	21,173	(129,437)
Finance costs		(1,134)	(1,517)
Share of profits less losses of associated companies		15,553	542
Profit/(loss) before taxation		35,592	(130,412)
Taxation	5	(5,525)	(1,078)
Profit/(loss) after taxation		30,067	(131,490)
Minority interests		1,792	206
Profit/(loss) attributable to shareholders		31,859	(131,284)
Dividends	6	20,032	—
Basic earning/(loss) per share	7	HK cents 7.95	HK cents (32.8)

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 30 JUNE 2004 AND 31 DECEMBER 2003**

		<b>Unaudited</b>	Audited
	Note	<b>30 June</b>	31 December
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
<b>Non-current assets</b>			
Fixed assets		25,762	25,487
Properties under/for development		63,000	63,000
Interests in associated companies	8	125,656	110,143
Investments in securities		36,658	22,427
Loans receivable from investee companies		1,894	9,075
Mortgage loans receivable - due after one year		34,840	20,496
Other loan receivables		393	—
Other non-current assets		2,242	2,242
		<b>290,445</b>	252,870
<b>Current assets</b>			
Properties for sale		—	231,911
Inventories		7,316	7,414
Trade and other receivables	9	69,526	34,846
Investments in securities		47,801	18,660
Mortgage loans receivable - current portion		633	629
Bank balances and cash	10	200,209	154,518
		<b>325,485</b>	447,978
<b>Current liabilities</b>			
Trade and other payables	11	25,899	39,612
Taxation payable		3,675	—
Current portion of long term liabilities	12	24,267	104,536
Loan from a minority shareholder of a subsidiary		11,208	20,066
		<b>65,049</b>	164,214
Net current assets		<b>260,436</b>	283,764
Total assets less current liabilities		<b>550,881</b>	536,634

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 30 JUNE 2004 AND 31 DECEMBER 2003**

		<b>Unaudited</b>	Audited
	Note	<b>30 June</b>	31 December
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Capital and reserves			
Share capital	13	<b>400,633</b>	572,333
Reserves		<b>151,217</b>	(52,342)
Shareholders' funds		<b>551,850</b>	519,991
Minority interests		<b>(2,585)</b>	161
Non-current liabilities			
Long term liabilities	12	<b>1,616</b>	16,482
		<b>550,881</b>	536,634

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Unaudited				Total
	Share capital	Contributed surplus	Other Reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	572,333	82,445	3,369	(138,156)	519,991
Capital reduction (note 13)	(171,700)	171,700	—	—	—
Profit for the period	—	—	—	31,859	31,859
At 30 June 2004	400,633	254,145	3,369	(106,297)	551,850
2004 interim dividend (note 6)	—	—	—	(20,032)	(20,032)
After 2004 interim dividend	<u>400,633</u>	<u>254,145</u>	<u>3,369</u>	<u>(126,329)</u>	<u>531,818</u>

	Unaudited				Total
	Share capital	Contributed surplus	Other Reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	892,840	214,217	3,369	(466,037)	644,389
Capital reorganisation (note 13)	(320,507)	320,507	—	—	—
Transfer from contributed surplus to accumulated losses (note)	—	(452,279)	—	452,279	—
Loss for the period	—	—	—	(131,284)	(131,284)
At 30 June 2003	<u>572,333</u>	<u>82,445</u>	<u>3,369</u>	<u>(145,042)</u>	<u>513,105</u>

Note:

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. 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.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<u>2004</u>	<u>2003</u>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash inflow/(outflow) from operating activities	<u>195,871</u>	<u>(34,282)</u>
Net cash (outflow)/inflow from investing activities	<u>(45,053)</u>	<u>26,418</u>
Net cash (outflow)/inflow from financing	<u>(105,127)</u>	<u>10,693</u>
Increase in cash and cash equivalents	45,691	2,829
Cash and cash equivalents at 1 January	<u>154,518</u>	<u>126,766</u>
Cash and cash equivalents at 30 June	<u><u>200,209</u></u>	<u><u>129,595</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u><u>200,209</u></u>	<u><u>129,595</u></u>



# NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

These condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

## 2. Segment information

### Primary reporting format - business segments

The Group is principally engaged in five 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

2. **Segment information** (continued)

**Primary reporting format - business segments** (continued)

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2004					
	HK\$'000					
	Broking services	Industrial & Management operating services	Investment banking	Direct investments	Property	Group
Revenues	—	17,644	—	323	271,585	289,552
Segment results	—	(550)	—	(110)	19,305	18,645
Net investment gain	—	—	—	9,126	—	9,126
General corporate expenses						(6,598)
Operating profit						21,173
Finance costs	—	—	—	—	(1,134)	(1,134)
Share of profits less losses of associated companies	1,978	5,817	7,526	—	232	15,553
Profit before taxation						35,592
Taxation						(5,525)
Profit after taxation						30,067
Minority interests						1,792
Profit attributable to shareholders						31,859

2. **Segment information** (continued)

**Primary reporting format - business segments** (continued)

	Six months ended 30 June 2003					Group
	HK\$'000					
	Broking Services	Industrial & Management operating services	Investment banking	Direct investments	Property	
Revenues	—	17,464	553	842	12,272	31,131
Segment results	—	(257)	14	(1,286)	(3,761)	(5,290)
Net investment loss	—	—	—	(20,460)	—	(20,460)
General corporate expenses						(5,649)
Operating loss before provision for impairment of long term assets						(31,399)
Provision for impairment of long term assets	—	—	—	(5,910)	(92,128)	(98,038)
Operating loss						(129,437)
Finance costs	—	(15)	—	—	(1,502)	(1,517)
Share of profits less losses of associated companies	(592)	2,969	(1,835)	—	—	542
Loss before taxation						(130,412)
Taxation						(1,078)
Loss after taxation						(131,490)
Minority interests						206
Loss attributable to shareholders						(131,284)

2. **Segment information** (continued)

**Secondary reporting format - geographical segments**

	<b>Turnover</b>		<b>Operating profit/(loss) before provision for impairment of long term assets</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Geographical segment:				
The People's Republic of China including Hong Kong	<b>289,552</b>	31,131	<b>21,173</b>	(31,399)
Japan	—	—	—	—
	<b>289,552</b>	31,131	<b>21,173</b>	(31,399)

Sales are based on the country in which the customers are located.

3. **Provision for impairment of long term assets**

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Provision for impairment of: -		
Investment properties	—	3,792
Leasehold land and buildings	—	4,774
Properties under/for development	—	31,201
Properties for sale	—	29,000
Loans receivables from investee companies	—	29,271
	—	98,038

4. **Operating profit/(loss)**

Operating profit/(loss) is stated after charging the following:

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation		
Owned fixed assets	<b>718</b>	1,071
Staff costs		
Wages and salaries	<b>8,662</b>	8,688
Pension costs - defined contribution plans	<b>185</b>	198
Operating lease rentals in respect of land and buildings	<b>554</b>	622
Provision for doubtful receivables	<b>5,267</b>	2,632

5. **Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax	3,675	—
Share of taxation attributable to associated companies	1,850	1,078
	<u>5,525</u>	<u>1,078</u>

6. **Dividends**

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
2004 Interim, proposed of 5 HK cents (2003: nil) per ordinary share	<u>20,032</u>	<u>—</u>

At a meeting held on 20 August 2004, the Directors declared an interim dividend of 5 HK cents per share for the year ending 31 December 2004. This dividend is not reflected as a dividend payable in these condensed financial statements, but will be reflected as an appropriation of the Company's retained profits for the year ending 31 December 2004.

7. **Basic earning/(loss) per share**

The calculation of basic earning/(loss) per share is based on the Group's profit attributable to shareholders of HK\$31,859,000 (2003: loss of HK\$131,284,000).

The basic earning/(loss) per share is based on the weighted average of 400,633,217 (2003: 400,633,217 as restated) ordinary shares in issue during the period.

8. Interests in associated companies

	<b>30 June 2004</b>	31 December 2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>125,656</b>	110,143
Loans to associated companies (note 9)	<b>2,209</b>	1,700
Loans from associated companies (note 11)	<b>—</b>	(242)
	<b>2,209</b>	1,458

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

(b) At 30 June 2004, the Group held interests in the following associated companies:

Name of associate	Place of incorporation/ registration	Proportion of nominal value of issued ordinary share capital held by the Group		Principal activity
		2004	2003	
SBI E2-Capital China Holdings Limited	Hong Kong	34%	49%	Investment holding
- SBI E2-Capital (HK) Limited	Hong Kong	34%	49%	Provision of corporate finance services
- SBI E2-Capital Securities Limited	Hong Kong	34%	49%	Securities broking and margin financing
SBI E2-Capital Holdings Limited (now known as "Westcomb Financial Group Limited")	Singapore	22%	27%	Investment holding
- SBI E2-Capital Pte Ltd (now known as "Westcomb Capital Pte. Ltd.")	Singapore	22%	27%	Provision of corporate finance services
- SBI E2-Capital Securities Pte Limited	Singapore	35%	38%	Securities broking
Winbox Company Limited	Hong Kong	38%	38%	Manufacturing and sale of quality plastic and paper boxes for luxury consumer goods
Guangzhou Science & Flourish Environmental Protective Technic Development Co. Limited	The People's Republic of China	36%	40%	Provision of drinking water filtration services

8. **Interests in associated companies** (continued)

(c) Summary of financial information of the SBI E2-Capital China Group, SBI E2-Capital Singapore Group and Winbox Group for the period ended 30 June 2004 is as follows:

	SBI E2-Capital China	SBI E2-Capital Singapore	Winbox
	HK\$'000	HK\$'000	HK\$'000
<b>Consolidated profit and loss</b>			
Turnover	24,596	56,305	50,226
Profit before taxation	3,315	27,306	15,308
<b>Consolidated balance sheet</b>			
Total assets	162,485	168,231	160,237
Total liabilities	(39,117)	(79,946)	(14,819)
Total net assets	123,368	88,285	145,418

9. **Trade and other receivables**

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Due from associated companies	2,209	1,700
Trade receivables	12,032	11,372
Other receivables, prepayments and deposits (note)	55,285	21,774
	69,526	34,846

The ageing analysis of trade receivables is as follows:

	0-60 days	61-90 days	> 90 days	Total
	HK'000	HK'000	HK'000	HK'000
Balance at 30 June 2004	5,478	2,943	3,611	12,032
Balance at 31 December 2003	6,114	2,019	3,239	11,372

The Group allows an average credit period of 30-90 days to trade debtors.

Note: Included in the balance was HK\$50,000,000 (Nil at 31 December 2003) receivables from a broker which was an associated company of the Group. The money was held in trust account and was intended to invest in quality listed securities in Hong Kong and overseas.

**10. Bank balances and cash**

	<u>30 June 2004</u>	<u>31 December 2003</u>
	HK\$'000	HK\$'000
The balance consists of:		
General account	<u>200,209</u>	<u>154,518</u>

**11. Trade and other payables**

	<u>30 June 2004</u>	<u>31 December 2003</u>
	HK\$'000	HK\$'000
Due to associated companies	—	242
Trade payables	7,562	7,497
Other accounts payables and accruals	<u>18,337</u>	<u>31,873</u>
	<u>25,899</u>	<u>39,612</u>

The ageing analysis of trade payables is as follows:

	<u>0-60 days</u>	<u>61-90 days</u>	<u>&gt; 90 days</u>	<u>Total</u>
	HK'000	HK'000	HK'000	HK'000
Balance at 30 June 2004	<u>3,202</u>	<u>1,743</u>	<u>2,617</u>	<u>7,562</u>
Balance at 31 December 2003	<u>3,837</u>	<u>1,806</u>	<u>1,854</u>	<u>7,497</u>

**12. Long term liabilities**

	<u>30 June 2004</u>	<u>31 December 2003</u>
	HK\$'000	HK\$'000
Bank loans		
Secured	24,190	119,209
Other loans		
Secured	<u>1,693</u>	<u>1,809</u>
	25,883	121,018
Current portion of long term liabilities	<u>(24,267)</u>	<u>(104,536)</u>
	<u>1,616</u>	<u>16,482</u>

Other loans not wholly repayable within five years are repayable by instalments from 1 July 2003 to 30 November 2018. Interest is charged on the outstanding balances at Prime + 1.5% p.a. (2003: Prime + 1.5% p.a.)



12. Long term liabilities (continued)

At 30 June 2004, the Group's bank loans and other loans were repayable as follows:

	Bank loans		Other loans	
	30.6.2004	31.12.2003	30.6.2004	31.12.2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	24,190	104,459	77	77
In the second year	—	5,900	77	77
In the third to fifth year	—	8,850	231	231
After the fifth year	—	—	1,308	1,424
	<u>24,190</u>	<u>119,209</u>	<u>1,693</u>	<u>1,809</u>

13. Share capital

	Share capital	
	No. of shares	Nominal value US\$'000
Authorised:		
At 1 January 2003 (ordinary share of US\$0.10 each)	2,000,000,000	200,000
		<u>HK\$'000</u>
Capital reorganisation scheme on 19 June 2003:		
Share consolidation (note (a))	(1,000,000,000)	—
Currency denomination (note (b))	—	1,560,000
Capital reduction (note (c))	—	(560,000)
Cancellation of the entire authorised but unissued share capital (note (d))	(427,666,832)	(427,667)
Increase in authorised share capital (note (d))	177,666,832	177,667
	<u>750,000,000</u>	<u>750,000</u>
At 30 June 2003 and 30 June 2004		

13. Share capital (continued)

	Share capital	
	No. of shares	Nominal value US\$'000
Issued and fully paid:		
At 1 January 2003 (ordinary share of US\$0.10 each)	1,144,666,336	114,467
		<b>HK\$'000</b>
Share consolidation (note (a))	(572,333,168)	
Currency redenomination (note (b))	572,333,168	892,840
Capital reduction (note (c))	—	(320,507)
At 30 June 2003 and 1 January 2004	572,333,168	572,333
Capital reduction (note (f))	—	(171,700)
Share consolidation (note (g))	(171,699,951)	—
At 30 June 2004	400,633,217	400,633
	<b>30 June 2004</b>	<b>31 December 2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Shown in the accounts as	<b>400,633</b>	572,333

By a special resolution passed on 18 June 2003, the Board effected the Capital Reorganisation pursuant to which:

- (a) every two issued and unissued shares in the Company was consolidated into one 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 to HK\$7.80;
- (c) the nominal value of all the redenominated shares were reduced from HK\$1.56 to HK\$1.00 each by the cancellation of 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 capital 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.

### 13. Share capital (continued)

By a special resolution passed on 30 April 2004, the Board effected the following exercise (referred to as "Capital Reduction") on 3 May 2004 pursuant to which:

- (f) the nominal value of all the issued Existing Shares will be reduced from HK\$1.00 to HK\$0.70 each by the cancellation of HK\$0.30 of the paid-up capital on each issued Existing Share;
- (g) every ten Reduced Shares in the Company will be consolidated into seven New shares; and
- (h) the credit of HK\$171,699,951 arising from the Capital Reduction on the basis of 572,333,168 issued Existing Shares in issue will be transferred to a contributed surplus account of the Company, where it may be utilised in accordance with the Bye-laws and all application laws.

### 14. Contingent liabilities

- (a) Corporate guarantees proportionate to the Group's interest were given to financial institutions for working capital facilities of associated companies and investee companies in addition to collaterals given by these companies. The aggregate amount of such facilities utilised by these companies at 30 June 2004 were as follows:

	<b>30 June 2004</b>	31 December 2003
	<b>HK\$'000</b>	HK\$'000
Guarantees given to banks for loans to:		
Associated companies	<b><u>4,434</u></b>	<u>5,750</u>

- (b) In addition, the Group 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 Group, SBI Pte and SBI Securities Pte. As at 30 June 2004, the shareholders' fund and the total liabilities of SBI Pte were HK\$45,864,000 and HK\$15,749,000 respectively; the shareholders' funds and the total liabilities of SBI Securities Pte were HK\$31,661,000 and HK\$46,003,000 respectively.
- (c) 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.

#### 14. Contingent liabilities (continued)

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 these 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 the assets of the Flourmills Businesses.

#### 15. Related party transactions

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Management fees received (note (a))	422	723
Management fee paid (note (b))	465	500

- (a) The Group performed certain administrative services for the SBI E2-Capital Group in which the Group has a 49% interest as at 30 June 2004. Management fees calculated on pre-agreed terms were charged to the SBI E2-Capital Group.
- (b) SBI E2-Capital Group performed certain administrative services for the Group. Management fees were calculated on a pre-agreed term.
- (c) 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.

- (d) As of 30 June 2004, the Group had investments in Softbank Strategic included in the current portion of investment in securities totalling HK\$34,786,000 (HK\$15,670,000 as of 31 December 2003).

**16. Subsequent events**

On 6 August 2004, the Group has entered an agreement with Bigfield Investments Limited to dispose of 16,352,324 shares, representing 10.92% interests, in SBI Singapore at the price of S\$0.43 per share with a total consideration of approximately S\$7,000,000. The disposal is scheduled to complete on 24 August 2004 and will generate a gain on disposal of over HK\$20 million to the Group.

On behalf of the Board

**Fung Ka Pun**

*Executive Co-Chairman*

**Wong Sin Just**

*Executive Co-Chairman*

Hong Kong, 20 August 2004