

# NOTES TO THE FINANCIAL STATEMENTS

## 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 Institute of Certified Public Accountants ("HKICPA"). 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.

### (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 Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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 or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Properties for development

Properties for 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 costs 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 accounts. 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.

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 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 uses.

### (g) Depreciation

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

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:

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

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

### (h) 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 investment properties, properties for development, properties for sale/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, properties for development and properties for sale/properties under development for sale 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) 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.

### (j) Investments in securities

#### (i) *Investment securities*

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.

#### (ii) *Other investments*

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.

#### (iii) *Held-to-maturity securities*

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

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

# NOTES TO THE 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) 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) Pension Obligations

The Group operates a defined contribution plan under the mandatory provident fund scheme and the ORSO scheme, 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.

### (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 accounts. 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 reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) Contingent liabilities

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

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

### (r) 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.

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



# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (r) Revenue recognition (Continued)

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

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

### (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.

### (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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, investment properties, properties for development, properties for sale/properties under development for sale, inventories, receivables, operating cash and investment 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of properties and properties for development	268,728	11,905
Sales of goods	40,180	34,765
Advisory fee, introductory fee and other commission income	660	553
Dividend income		
– listed investments	349	—
– unlisted investments	977	—
Interest income	3,740	1,633
Rental income and building management fee income	1,753	2,847
Total turnover	316,387	51,703
Other revenues	10,729	788
Total revenues	327,116	52,491

### Primary reporting format – business segments

The Group is organised on a regional basis into six main business segments:

- Broking Services – securities broking and provision of margin financing, commodities, options and futures broking
- Investment Banking – provision of corporate finance services
- Direct Investments – securities trading
- Industrial and Management Operating Services – manufacture of quality plastic and paper boxes for luxury consumer goods, and trading of dyestuffs
- Digital Consumer Products – sourcing and distribution of digital consumer products
- Property – property development and holding

# NOTES TO THE FINANCIAL STATEMENTS

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### 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, investment banking, direct investments, industrial and management operating services and property.

Europe – digital consumer products.

There are no sales between the geographical segments.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

	2004						Group
	Broking Services	Investment Banking	Direct Investments	HK\$'000 Industrial & Management Operating Services	Digital Consumer Products	Property	
Revenues	—	—	3,566	37,551	2,629	272,641	316,387
Segment results	—	(57)	4,365	2,131	—	25,085	31,524
Net investment gain	—	—	50,038	—	—	—	50,038
General corporate expenses	—	—	—	—	—	—	(25,525)
Operating profit before provision for impairment of assets	—	—	—	—	—	—	56,037
Provision for impairment of assets	—	—	—	—	—	—	—
Operating profit	—	—	(1,030)	—	—	(1,863)	56,037
Finance costs	—	—	—	—	—	—	(2,893)
Share of profits less losses of associated companies	2,049	11,084	—	8,666	—	—	21,799
Profit before taxation	—	—	—	—	—	—	74,943
Taxation	—	—	—	—	—	—	(5,278)
Profit after taxation	—	—	—	—	—	—	69,665
Minority interests	—	—	—	—	—	—	(2,603)
Profit attributable to shareholders	—	—	—	—	—	—	67,062
Segment assets	—	—	138,266	38,636	2,629	126,931	306,462
Interests in associated companies	42,496	6,930	—	56,144	—	—	105,570
Unallocated assets	—	—	—	—	—	—	211,650
Total assets	—	—	—	—	—	—	623,682
Segment liabilities	—	—	213	12,430	2,629	36,549	51,821
Unallocated liabilities	—	—	—	—	—	—	5,110
Total liabilities	—	—	—	—	—	—	56,931
Capital expenditure	—	—	307	33	—	986	1,326
Depreciation	—	—	311	782	—	330	1,423

# NOTES TO THE FINANCIAL STATEMENTS

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

	2003					Group
	HK\$'000					
	Broking Services	Investment Banking	Direct Investments	Industrial & Management Operating Services	Property	
Revenues	—	553	1,633	34,765	14,752	51,703
Segment results	—	(73)	2,042	(1,251)	(10,239)	(9,521)
Net investment loss	—	—	(5,480)	—	—	(5,480)
General corporate expenses	—	—	—	—	—	(18,903)
Operating loss before provision for impairment of assets	—	—	—	—	—	(33,904)
Provision for impairment of assets	—	—	(22,597)	—	(79,971)	(102,568)
Operating loss	—	—	—	—	—	(136,472)
Finance costs	—	—	—	(15)	(2,731)	(2,746)
Share of profits less losses of associated companies	(325)	8,768	—	9,122	—	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	—	—	55,169	31,389	341,850	428,408
Interests in associated companies	40,063	17,268	—	52,812	—	110,143
Unallocated assets	—	—	—	—	—	162,297
Total assets	—	—	—	—	—	700,848
Segment liabilities	—	—	21	7,658	165,245	172,924
Unallocated liabilities	—	—	—	—	—	7,933
Total liabilities	—	—	—	—	—	180,857
Capital expenditure	—	74	13	350	118	555
Depreciation	—	—	1,084	197	979	2,260

# NOTES TO THE FINANCIAL STATEMENTS

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

	Turnover		Operating profit/(loss) before provision for impairment of assets	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segment:				
The Peoples' Republic of China including Hong Kong	313,758	51,703	56,037	(33,904)
Europe	2,629	—	—	—
	<u>316,387</u>	<u>51,703</u>	<u>56,037</u>	<u>(33,904)</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.

## 3. PROVISION FOR IMPAIRMENT OF ASSETS

	2004	2003
	HK\$'000	HK\$'000
Provision for impairment of:		
Investments in securities	—	16,687
Investment properties	—	6,792
Leasehold land and buildings	—	4,774
Properties for development (Note 13)	—	26,201
Properties for sale/properties under development for sale (Note 19)	—	23,012
Loans receivable from investee companies	—	25,102
	<u>—</u>	<u>102,568</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 4. OPERATING PROFIT/(LOSS)

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

	2004	2003
	HK\$'000	HK\$'000
<b>Charging</b>		
Depreciation on owned fixed assets	1,423	2,260
Staff costs (including directors' remuneration)	27,137	17,820
Pension costs – defined contribution plans (Note 10)	403	402
Operating leases on land and buildings	1,140	720
Auditors' remuneration	1,000	600
Loss on disposal of fixed assets	—	1,782
Provision for doubtful receivables	6,548	3,018
Realised loss on investments in securities	—	1,788
Unrealised loss on investments in securities	—	3,692
	<u>          </u>	<u>          </u>
<b>Crediting</b>		
Realised gain on investments in securities	7,539	—
Unrealised gain on investments in securities	20,404	—
Reversal of provision on construction cost	2,774	—
	<u>          </u>	<u>          </u>

# NOTES TO THE FINANCIAL STATEMENTS

## 5. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans		
Wholly repayable within five years	1,764	5,389
Interest on other loans		
Wholly repayable within five years	1,026	—
Not wholly repayable within five years	103	128
	<u>2,893</u>	<u>5,517</u>
Total borrowing costs incurred	2,893	5,517
Less: amount capitalised in properties for development and properties under development for sale	—	(2,771)
	<u>2,893</u>	<u>2,746</u>

The interest rate applied to funds borrowed generally and used for the development of properties under development is between Hong Kong Interbank Offered Rate plus 1.25 % and Hong Kong dollar prime rate plus 0.5% per annum.

## 6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. 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 to the consolidated profit and loss account represents:

	2004	2003
	HK\$'000	HK\$'000
Current taxation:		
- Hong Kong profits tax	—	—
- Overseas taxation	—	—
- Under/(over)-provision in prior years	1,965	(34)
Share of taxation attributable to associated companies	3,313	2,507
	<u>5,278</u>	<u>2,473</u>



# NOTES TO THE FINANCIAL STATEMENTS

## 6. TAXATION (Continued)

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company is reconciled as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit/(loss) before taxation	74,943	(121,653)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	13,115	(21,289)
Under/(over)-provision for previous years	1,965	(34)
Income not subject to taxation	(9,777)	(4,709)
Expenses not deductible for taxation purpose	14,321	16,206
Share of taxation attributable to associated companies	3,313	2,507
(Utilization)/addition of unrecognised tax losses	(17,659)	9,792
Taxation charge	5,278	2,473

## 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\$21,794,000 (2003: HK\$112,795,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 8. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Interim, paid, of 5 HK cents (2003: nil) per ordinary share	20,032	—
Final, proposed of 5 HK cents (2003: nil) per ordinary share	20,032	—
	<u>40,064</u>	<u>—</u>

The final dividend has been proposed by the directors subject to the approval by the shareholders in the forthcoming annual general meeting.

## 9. BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share are based on the Group's profit attributable to shareholders of HK\$67,062,000 (2003: loss of HK\$124,398,000).

The basic earnings/(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 year.

## 10. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	16,924	17,820
Discretionary bonus	10,055	—
Termination benefits	158	—
Pension costs – defined contribution plans	403	402
	<u>27,540</u>	<u>18,222</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 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:

	2004	2003
	HK\$'000	HK\$'000
Fees		
- Executive	—	—
- Independent non-executive	65	—
Other emoluments:		
Basic salaries, housing allowances, discretionary bonus, other allowances and benefits in kind	14,240	6,240
Contributions to pension schemes for directors		
- as directors	24	24
- for other officers	—	—
	<u>14,329</u>	<u>6,264</u>

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
HK\$nil - HK\$1,000,000	4	2
HK\$3,000,001 - HK\$3,500,000	—	2
HK\$7,000,001 - HK\$7,500,000	2	—
	<u>6</u>	<u>4</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 (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing allowances, discretionary bonus, other allowances and benefits in kind	3,449	2,910
Pensions	24	36
	<u>3,473</u>	<u>2,946</u>

The emoluments fell within the following bands:

#### Emolument bands

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

	Number of individuals	
	2004	2003
HK\$nil - HK\$1,000,000	1	1
HK\$1,000,001 - HK\$1,500,000	<u>2</u>	<u>2</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 12. FIXED ASSETS

	Group					Total HK\$'000
	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	
Cost:						
At 1 January 2004	6,300	41,292	4,904	7,645	2,763	62,904
Additions	—	922	15	314	11	1,262
Written-off/disposals	—	—	—	(4,867)	—	(4,867)
At 31 December 2004	<u>6,300</u>	<u>42,214</u>	<u>4,919</u>	<u>3,092</u>	<u>2,774</u>	<u>59,299</u>
Accumulated depreciation and impairment:						
At 1 January 2004	1,800	21,720	4,676	7,439	1,782	37,417
Charge for the year	—	860	109	107	347	1,423
Written-off/disposals	—	—	—	(4,865)	—	(4,865)
At 31 December 2004	<u>1,800</u>	<u>22,580</u>	<u>4,785</u>	<u>2,681</u>	<u>2,129</u>	<u>33,975</u>
Net book value:						
At 31 December 2004	<u>4,500</u>	<u>19,634</u>	<u>134</u>	<u>411</u>	<u>645</u>	<u>25,324</u>
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>

# 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	
	2004	2003
	HK\$'000	HK\$'000
In Hong Kong, held on Leases of between 10 to 50 years	23,224	24,072
Outside Hong Kong, held on Leases over 50 years	910	—
	<u>24,134</u>	<u>24,072</u>

Investment property was valued on an open market value basis as at 31 December 2004 by a member of the Hong Kong Institute of Surveyor employed by the Group.

	Company		
	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:			
At 1 January 2004	105	1,422	1,527
Additions	2	10	12
At 31 December 2004	<u>107</u>	<u>1,432</u>	<u>1,539</u>
Accumulated depreciation:			
At 1 January 2004	33	582	615
Charge for the year	21	258	279
At 31 December 2004	<u>54</u>	<u>840</u>	<u>894</u>
Net book value:			
At 31 December 2004	<u>53</u>	<u>592</u>	<u>645</u>
At 31 December 2003	<u>72</u>	<u>840</u>	<u>912</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 13. PROPERTIES FOR DEVELOPMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cost:		
At 1 January	166,146	166,146
Additions	64	—
Reclassified to properties under development for sale	(44,208)	—
At 31 December	122,002	166,146
Provision for impairment:		
At 1 January	103,146	76,945
Additions	—	26,201
Reclassified to properties under development for sale	(24,144)	—
At 31 December	79,002	103,146
At 31 December	43,000	63,000

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

	2004	2003
	HK\$'000	HK\$'000
Leases of between 10 to 50 years	43,000	63,000

As at 31 December 2004, interest expenses capitalised in the cost of properties for development amounted to HK\$22,108,000 (2003: HK\$33,152,000).

The properties for development have been pledged to secure banking facilities granted to the Group of HK\$24,190,000 (2003: HK\$24,190,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares at cost	1,205,188	1,185,916
Amounts due from subsidiaries (Note 21)	624,471	632,843
Amounts due to subsidiaries (Note 22)	(1,284,325)	(1,182,577)
	(659,854)	(549,734)

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

At 31 December 2004, the Company held interests in the following principal subsidiaries:

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



# NOTES TO THE FINANCIAL STATEMENTS

## 14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Particulars of issued share capital	Interest held	
				Direct %	Indirect %
e2-Capital Venture Limited	Cayman Islands	Venture capital	US\$2	100	—
Ever Lead Limited	Hong Kong	Property development	Ordinary HK\$98 Non-voting deferred HK\$2 (Note a)	—	100
Ever Loyal Development Limited	Hong Kong	Property development	HK\$2	—	100
Full Success Investments Limited	Hong Kong	Property holding	HK\$2	—	100
Goodwill Investment (BVI) Limited	British Virgin Islands	Investment holding	US\$100	100	—
Goodwill Properties (Holdings) Limited	British Virgin Islands	Investment holding	US\$1	—	100
Goodwill Properties Limited	Hong Kong	Investment holding	HK\$2	—	100
Lucky Happy Development Limited	Hong Kong	Property holding	HK\$100	—	100
NAPA Global Limited (formerly known as "OpenOffering Capital Limited")	Hong Kong	Sourcing and distribution of digital consumer products	HK\$20,000,000	—	100

# NOTES TO THE FINANCIAL STATEMENTS

## 14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Particulars of issued share capital	Interest held	
				Direct %	Indirect %
Right Way Holdings Limited	Hong Kong	Property development	HK\$10	—	70
SBI E2-Capital Holdings Sdn Bhd	Malaysia	Investment holding	RM1,000	100	—

*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 2004, or at any time during the year.

# NOTES TO THE FINANCIAL STATEMENTS

## 15. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	105,570	110,143
Loans to associated companies (Note 21)	2,611	1,700
Loans from associated companies (Note 22)	—	(242)
	2,611	1,458

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

At 31 December 2004, the Company held interests in the following associated companies:

Name	Place of incorporation/ registration	Principal activities	Interest held indirectly %
SBI E2-Capital China Holdings Limited	Hong Kong	Investment holding	34%
- SBI E2-Capital (HK) Limited	Hong Kong	Provision of corporate finance service	34%
- SBI E2-Capital Securities Limited	Hong Kong	Securities broking and margin financing	34%
Winbox Company Limited	Hong Kong	Manufacture and sale of quality plastic and paper boxes for luxury consumer goods	38%
Guangzhou Science Compile & Flourish Environmental Protective Technic Development Co Limited	The Peoples' Republic of China	Provision of drinking water filtration services and supply of bottled water	36%

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

# NOTES TO THE FINANCIAL STATEMENTS

## 15. INTERESTS IN ASSOCIATED COMPANIES (Continued)

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"), Winbox Company Limited ("Winbox") and Westcomb Financial Group Limited ("Westcomb Financial Group") for the year ended 31 December 2004 is as follows:

	SBI E2-Capital China HK\$'000 <i>(Note a)</i>	Winbox HK\$'000 <i>(Note b)</i>	Westcomb Financial Group HK\$'000 <i>(Note c)</i>
<b>Consolidated profit and loss</b>			
Turnover	48,260	106,218	82,795
Profit before taxation	6,772	30,322	33,102
<b>Consolidated balance sheet</b>			
Total assets	111,124	227,427	—
Total liabilities	46,027	15,071	—
Total net assets	65,097	212,356	—

*Note:*

- (a) 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.
- (b) Winbox has a financial accounting period of 31 March which is not coterminous with the Group.
- (c) Westcomb Financial Group Limited was ceased to be an associated company of the Group in August 2004. The financial information disclosed above is for the 7 months period ended 31 July 2004.

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INVESTMENTS IN SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Investment securities		
Unlisted, at cost	44,757	30,871
Less: provision for impairment loss	(17,544)	(17,544)
	<u>27,213</u>	<u>13,327</u>
Unlisted debt securities, at cost	<u>20,354</u>	<u>6,354</u>
Total carrying amount of investment securities	<u><u>47,567</u></u>	<u><u>19,681</u></u>
Investment securities analysed for reporting purpose:		
Current	—	—
Non-current	<u>47,567</u>	<u>19,681</u>
	<u><u>47,567</u></u>	<u><u>19,681</u></u>
Held-to-maturity securities		
Unlisted, at cost	<u>3,891</u>	<u>—</u>
Held-to-maturity securities analysed for reporting purpose:		
Current	<u>3,891</u>	<u>—</u>
Non-current	<u>—</u>	<u>—</u>
	<u><u>3,891</u></u>	<u><u>—</u></u>



# NOTES TO THE FINANCIAL STATEMENTS

## 17. MORTGAGE LOANS RECEIVABLE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Due within one year	2,916	629
Due after one year	31,174	21,896
	34,090	22,525
Less: Provision for doubtful receivables	(1,550)	(1,400)
	<u>32,540</u>	<u>21,125</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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Statutory and other deposits relating to the securities dealing businesses	50	100	—	—
Chinese antiques	2,017	2,017	2,017	2,017
Other deposits	125	125	—	—
	<u>2,192</u>	<u>2,242</u>	<u>2,017</u>	<u>2,017</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 19. PROPERTIES FOR SALE/PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cost		
At 1 January	314,915	153,120
Additions	—	65,845
Disposals	(314,915)	(23,358)
Reclassified from fixed assets	—	119,308
Reclassified from properties for development	44,208	—
At 31 December	<u>44,208</u>	<u>314,915</u>
Provision		
At 1 January	83,004	9,614
Additions	—	23,012
Disposals	(83,004)	(6,930)
Reclassified from fixed assets	—	57,308
Reclassified from properties for development	24,144	—
At 31 December	<u>24,144</u>	<u>83,004</u>
Net book value	<u><u>20,064</u></u>	<u><u>231,911</u></u>

As at 31 December 2004, interest expense capitalised in the cost of properties for sale and properties under development for sale is HK\$11,044,000 (2003: HK\$6,371,000).

At 31 December 2004, the properties under development for sale of HK\$20,064,000 is situated Hong Kong and is held under medium term lease.

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.



# NOTES TO THE FINANCIAL STATEMENTS

## 20. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Finished goods	7,834	7,414

## 21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due from:				
Subsidiaries	—	—	624,471	632,843
Associated companies	2,611	1,700	2,065	1,147
Trade receivables	17,509	11,372	—	—
Other receivables, prepayments and deposits ( <i>Note</i> )	29,244	21,774	3,752	19,876
	<u>49,364</u>	<u>34,846</u>	<u>630,288</u>	<u>653,866</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 21. TRADE AND OTHER RECEIVABLES (Continued)

- (a) The Group allows an average credit period of 61-90 days to trade debtors. As at 31 December 2004, the ageing analysis of the trade receivables is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0-60 days	8,597	6,114
61-90 days	3,439	2,019
Over 90 days	5,473	3,239
	<u>17,509</u>	<u>11,372</u>

Note:

- (a) Included in the balance was HK\$596,000 (2003: Nil) 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.
- (b) As at 31 December 2004, the Group has a loan receivable with interest totalling HK\$9,800,000. The Group is currently in a litigation process to pursue the outstanding balance. Directors are of the view that the recoverability of the loan is not certain and full provision is maintained.

## 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to:				
Subsidiaries	—	—	1,284,325	1,182,577
Associated companies	—	242	—	—
Trade payables	13,224	7,497	—	—
Other accounts payables and accruals	12,794	31,873	2,637	2,885
	<u>26,018</u>	<u>39,612</u>	<u>1,286,962</u>	<u>1,185,462</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 22. TRADE AND OTHER PAYABLES (Continued)

At 31 December 2004, the ageing analysis of trade payables is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0-60 days	6,033	3,837
61-90 days	3,561	1,806
Over 90 days	3,630	1,854
	<u>13,224</u>	<u>7,497</u>

## 23. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 24. SHARE CAPITAL

### Share capital

	No. of shares	Nominal value US\$'000
Authorised:		
At 31 December 2003 and 31 December 2004	750,000,000	750,000
	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
		HK\$'000
Share consolidation (Note (a))	(572,333,168)	—
Currency redenomination (Note (b))	572,333,168	892,840
Capital reduction (Note (c))	—	(320,507)
At 31 December 2003 and 1 January 2004	572,333,168	572,333
Capital reduction (Note (f))	—	(171,700)
Share Consolidation (Note (g))	(171,699,951)	—
At 31 December 2004	400,633,217	400,633

# NOTES TO THE FINANCIAL STATEMENTS

## 24. SHARE CAPITAL (Continued)

	2004	2003
	HK\$'000	HK\$'000
Shown in the financial statements as	<u>400,633</u>	<u>572,333</u>

### Notes:

By a special resolution passed on 18 June 2003, the Company effected the following exercise (referred as "Capital Reorganisation") on 19 June 2003 pursuant to which (all capitalized terms used in sub paragraphs (a) to (e) have the same meaning ascribed to them as stated in the Circular issued by the Company dated 23 May 2003):

- (a) every two issued and unissued shares in the Company were consolidated into one Consolidated Share;
- (b) the currency denomination of all 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 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.

By a special resolution passed on 30 April 2004, the Company effected the following exercise (referred as "Capital Reduction") on 3 May 2004 pursuant to which (all capitalized terms used in sub paragraphs (f) to (h) have the same meaning ascribed to them as stated in the circular issued by the Company dated 7 April 2004):

- (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 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.

### 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

	Group				Total HK\$'000
	Contributed surplus HK\$'000	Other reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Exchange reserve HK\$'000	
At 1 January 2003	214,217	3,369	(466,037)	—	(248,451)
Capital reorganisation (Note 24(e))	320,507	—	—	—	320,507
Transfer from contributed surplus to accumulated losses (Note)	(452,279)	—	452,279	—	—
Loss for the year	—	—	(124,398)	—	(124,398)
At 31 December 2003	<u>82,445</u>	<u>3,369</u>	<u>(138,156)</u>	<u>—</u>	<u>(52,342)</u>
Representing:					
Company and subsidiaries	82,445	3,369	(134,650)	—	(48,836)
Associated companies	—	—	(3,506)	—	(3,506)
At 31 December 2003	<u>82,445</u>	<u>3,369</u>	<u>(138,156)</u>	<u>—</u>	<u>(52,342)</u>
At 1 January 2004	82,445	3,369	(138,156)	—	(52,342)
Capital reorganisation (Note 24(h))	171,700	—	—	—	171,700
Transfer from contributed surplus to accumulated loss (Note)	(171,700)	—	171,700	—	—
Dividend	—	—	(20,032)	—	(20,032)
Exchange difference	—	—	—	(270)	(270)
Profit for the year	—	—	67,062	—	67,062
At 31 December 2004	<u>82,445</u>	<u>3,369</u>	<u>80,574</u>	<u>(270)</u>	<u>166,118</u>
Representing:					
Company and subsidiaries	82,445	3,369	71,557	(270)	157,101
Associated companies	—	—	9,017	—	9,017
At 31 December 2004	<u>82,445</u>	<u>3,369</u>	<u>80,574</u>	<u>(270)</u>	<u>166,118</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 25. RESERVES (Continued)

	Company			Total HK\$'000
	Contributed surplus HK\$'000	Other reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	
At 1 January 2003	131,772	2,184	(130,623)	3,333
Capital reorganisation (Note 24(e))	320,507	—	—	320,507
Transfer from contributed surplus to accumulated losses (Note)	(452,279)	—	452,279	—
Loss for the year	—	—	(112,795)	(112,795)
At 31 December 2003	—	2,184	208,861	211,045
At 1 January 2004	—	2,184	208,861	211,045
Capital reorganisation (Note 24(h))	171,700	—	—	171,700
Transfer from contributed surplus to accumulated losses (Note)	(171,700)	—	171,700	—
Loss for the year	—	—	(21,794)	(21,794)
Dividend	—	—	(20,032)	(20,032)
At 31 December 2004	—	2,184	338,735	340,919

Note:

(a) HK\$45,240,000 of the Group'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 balance of the Group's contributed surplus represents other realised capital reserves. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. RESERVES (Continued)

(c) In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 December 2004 were as follows

	HK\$'000
Other reserve	2,184
Retained profits	338,735
	<u>340,919</u>

## 26. LONG-TERM LIABILITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank Loans		
Secured	24,190	119,209
Other loans		
Secured	1,654	1,809
	<u>25,844</u>	121,081
Current portion of long-term liabilities	<u>(24,267)</u>	(104,536)
	<u>1,577</u>	<u>16,482</u>
The analysis of the above is as follows:		
Bank loans		
Wholly repayable within five years	24,190	119,209
Other loans		
Not wholly repayable within five years	1,654	1,809
	<u>25,844</u>	121,018
Current portion of long-term liabilities	<u>(24,267)</u>	(104,536)
	<u>1,577</u>	<u>16,482</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. (2003: Prime +1.5% p.a.).

At 31 December 2004, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans		Other loans	
	2004	2003	2004	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	—	—	1,269	1,424
	<u>24,190</u>	<u>119,209</u>	<u>1,654</u>	<u>1,809</u>

## 27. DEFERRED TAXATION

At 31 December 2004, the Group has an estimated unused tax losses of HK\$323,897,000 (2003: HK\$419,655,000) 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 properties, 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 28. CONSOLIDATED CASH FLOW STATEMENT

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

	2004	2003
	HK\$'000	HK\$'000
Profit/(loss) before taxation	74,943	(121,653)
Share of results of associated companies	(21,799)	(17,565)
Depreciation	1,423	2,260
Dividend income from associated companies	3,800	4,411
Gain on disposal of interests in associated companies (net)	(22,095)	—
Provision for impairment of investments in securities	—	16,687
Realised and unrealised (gain)/loss on investments in securities (net)	(27,943)	5,480
Loss on disposal of fixed assets	—	1,782
(Recovery)/Provision for loans receivables	(6,248)	3,018
Provision for impairment of assets	—	85,881
Decrease/(increase) in properties for sale/properties under development for sale	231,911	(29,417)
(Increase)/decrease in inventories	(420)	1,159
(Increase)/decrease in trade and other receivables	(14,518)	6,615
Increase in investments in securities	(8,139)	(18,199)
Increase in trade and other payables	(15,026)	(16,406)
Interest income	(3,740)	(1,633)
Interest expenses	2,894	2,746
Exchange difference	(270)	—
Net cash inflow/(outflow) from operation activities	194,773	(74,834)
Interest income	3,740	1,633
Interest expenses	(1,030)	—
Hong Kong tax paid	(1,973)	—
Net cash inflow/(outflow) from operating activities	195,510	(73,201)

# NOTES TO THE FINANCIAL STATEMENTS

## 28. 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	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	575,702	896,209	141,084	136,551	161	192
New loans raised	—	—	—	74,369	—	—
Minority interests in share of profits/(losses)	—	—	—	—	2,603	272
Minority interests attributed to associated companies	—	—	—	—	(1,638)	(303)
Shares repurchased and cancelled	—	—	—	—	—	—
Decrease in minority interests upon disposal of subsidiaries	—	—	—	—	—	—
Repayment during the year	—	—	(105,049)	(69,836)	—	—
Other movements not involving cash flows:						
Capital reorganisation (Note 24)	(171,700)	(320,507)	—	—	—	—
At 31 December	<u>404,002</u>	<u>575,702</u>	<u>29,787</u>	<u>141,084</u>	<u>1,126</u>	<u>161</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 29. CONTINGENT LIABILITIES

Corporate guarantees were given to financial institutions for working capital facilities of associated companies and a third party 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 2004 were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Subsidiary companies	—	—	24,190	119,209
Associated companies	6,429	5,750	6,429	5,750
Third party	33,000	—	33,000	—
	<u>39,429</u>	<u>5,750</u>	<u>63,619</u>	<u>124,959</u>

## 30. OPERATING LEASE COMMITMENTS

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 Land and buildings HK\$'000	2003 Land and buildings HK\$'000
Not later than one year	203	—
Later than one year and not later than five years	101	—
	<u>304</u>	<u>—</u>

The Company did not have any other commitments at 31 December 2004. (2003: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

## 31. FUTURE OPERATING LEASE ARRANGEMENTS

As at 31 December 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	1,183	1,138
Later than one year and not later than five years	1,648	1,090
	<u>2,831</u>	<u>2,228</u>

## 32. 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	
		2004	2003
		HK\$'000	HK\$'000
Management fees received	(a)	867	1,227
Management fees paid	(b)	(746)	500
Financial advisory fees paid	(c)	(150)	—
		<u>—</u>	<u>—</u>

- (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 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 32. RELATED PARTY TRANSACTIONS (Continued)

- (c) The Group paid financial advisory fee to SBI E2-Capital Group for financial advisory services provided at agreed rates in accordance with the agreements entered into between the Group and SBI E2-Capital Group.
- (d) As of 31 December 2004, the Group had investments in Softbank Investment International (Strategic) Limited which was included in the current portion of investment in securities of HK\$15,129,000 (2003: HK\$15,670,000) and non-current portion of HK\$19,000,000 (2003: HK\$5,000,000).

## 33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 January 2005.