

Introduction

Less than encouraging economic conditions plaguing the region as well as the technology sector have had a significant impact on the performance of the Company for the year under review. In light of these conditions, the Company adopted a conservative approach in its various operations and took the opportunity to lay the foundations during this period for development in the future as and when market conditions improve. Accordingly, the Company has made substantial provision in the investments it made during the year which have largely contributed to the losses shown. The most significant strategic move by the Company was the diversification into the financial services business through a strategic majority acquisition in the financial services arm of E2-Capital (Holdings) Limited, to form SBI E2-Capital. Despite the losses incurred, the Company believes in the fundamentals of each of the investments made and believes that with the entry into the financial services business, it will be able to capture significant upside when the market turns around.

Operational Review

This section examines the performance and prospects of the Company's core and non-core business divisions. The Company's core business comprises the investment holding division, made up of the business development and net-trans divisions, and financial services division whilst its non-core business comprises the dyestuffs distribution, household fabrics and garment manufacturing and property holding divisions.

- **Investment Holding Division**

Accounting for about 1 % of the Group's turnover, this division recorded the turnover of HK\$1.9 million for the year ended 30 June 2001.

An operating loss of HK\$93.8 million was recorded for the year ended 30 June 2001 from HK\$22.7 million in the previous period. The significant change was mainly due to the provision of loss of HK\$73.5 million on the impairment of certain non-trading securities. Whilst the Company believes in the fundamentals of the investments, this provision was considered prudent by the Board in view of the current economic downturn.

Over the coming financial year, certain new accounting standards will be applicable to the Group. The Board will continue to adopt a conservative approach in reviewing the carrying value of the Group's assets and also ensure that future write-downs, if any, will be made according to such standards.

The investment holding activities of the Group are performed by the Business Development Division and the Net-Trans Division:

- (1) *Business Development Division*

The primary aim of this division is to identify opportunities to invest in companies that may bring synergy to the Company's existing businesses and investments, or the potential of financial gain. This division identifies internet-related or high-tech companies with potential for growth and expansion and provides funding and management assistance to nurture their growth to become a major source of profit for the Company. This division works closely with the Net-Trans Division to identify suitable projects that fall under the Net-Trans concept (see below).



Management Discussion and Analysis

More recently, the Business Development Division has also been working very closely with its affiliate, Softbank China Venture Investments Limited (“SBCVI”) in exploring synergistic partnerships and alliances between the investment portfolios of the Company and SBCVI as well as in mapping out a mutually beneficial strategy regarding the two companies’ activities in the region. In early July this year, the Company and SBCVI also entered into a Consultancy and Management Agreement. Under this Agreement, the Company will provide consultancy and management services to SBCVI to assist SBCVI in its business strategy and the management of the funds under its control, including the Asian Net Trans Fund (“ANTF”) of which the Company is one of the shareholders (please see below), as well as the Hong Kong Government’s Applied Research Fund, which is jointly managed by SBCVI and techpacific.com. The ANTF has made numerous investments so far in IT and technology companies in Asia, including mainland China, Taiwan, Hong Kong, and Malaysia. The Company expects a closer working relationship to develop with SBCVI over the coming financial year.

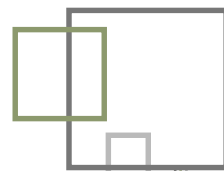
In view of the market conditions prevailing in the latter half of the financial year under review and the slump in the technology sector, the Company shifted its focus over that period from making new investments to greater management of its existing investment portfolio and the generating of liquidity. Nevertheless, the Company remained open to opportunities and has identified, evaluated and monitored several promising companies deemed to be good potential investments, with a view of possibly investing in them when overall market sentiments improve, and when these companies establish a stronger track record.

The Company however continued to aggressively identify and make strategic acquisitions during the year. In April 2001, the Company took the opportunity to diversify into the financial services business by making a strategic majority acquisition in the financial services arm of E2-Capital (Holdings) Limited, to form SBI E2-Capital. SBI E2-Capital has a proven track record in investment banking and corporate finance services. In barely eighteen months since its inception SBI E2-Capital executed 30 equity/debt raising transactions totaling approximately US\$1 billion. The formation of SBI E2-Capital is seen as a strategic move as it enables the Company to leverage upon the wide range of financial services provided by SBI E2-Capital. These services will be useful in assisting the Company’s current and future portfolio investee companies which may require services such as fund raising, mergers and acquisitions, corporate restructuring, Initial Public Offerings. Further information on SBI E2-Capital may be found further below under “Financial Services Division”.

Other recent acquisitions and investments for the year ended 30 June 2001 include the following, in chronological order:

Pursuant to an agreement dated 31 March 2000 with chinadotcom corporation (“CCC”), the Company and CCC conditionally agreed to exchange new shares with each other and to establish a 50:50 joint venture to provide technology and business consultancy services. Owing to current market conditions, however, the execution of the agreement has been postponed indefinitely until such time as the parties may consider appropriate.

Management Discussion and Analysis



In August 2000, the Company subscribed for shares in Softbank Asia Net-Trans Fund Limited (the "Fund") for a total consideration of US\$6 million (equivalent to approximately HK\$46.5 million). Targeting the Asian market (excluding Japan), the Fund aims to invest in traditional off-line businesses that have the potential to be converted into successful online businesses and companies that can bring synergy to the core segments of the commercial Internet arena including e-commerce, content provision, business services and consumer services. The Fund is managed by SBCVI, an indirect wholly owned subsidiary of Softbank Investment Corp., one of the Company's major shareholders. The Company believes that besides the possibility of financial benefits, the investment is highly complementary to the Company's Net-Trans strategy, as it allows the Company access to a wider pool of Softbank investee companies to enhance prospects for strengthening partnerships and alliances amongst the entire Softbank portfolio of companies. Through a Consultancy and Management Agreement between the Company and SBCVI, the Company also plays a key role in the management of the Fund through the provision of consultancy and management services to SBCVI.

In August 2000, the Company purchased 10% of the issued share capital of China Travel Net Limited ("CTN") from China Travel Service (Holdings) Hong Kong Limited for a total consideration of HK\$100 million. CTN, a provider of travel-related application software systems, including identity and security documentation as well as information management system, is expanding into the on-line travel business to provide comprehensive information and ticketing services to travelers and traditional travel agents. The Company believes that the on-line travel business has the potential to expand considerably over time.

In November 2000, the Company purchased 1,867,200 shares (10% of the issued share capital) of Morningstar Asia Limited ("Morningstar Asia") from Advanced Internet Visions Limited ("AIV") (a subsidiary of Pacific Century CyberWorks Limited) for a total consideration of HK\$18.7 million, making Morningstar Asia a joint venture between the Company, Softbank Finance Corp., AIV and Morningstar Inc. Morningstar Asia aims to emulate the successes of Morningstar Inc. in the USA and Morningstar Japan in providing reports and specialist information on mutual funds and related financial products to interested investors, as well as consumer-oriented websites in Asia, offering data and customized editorial content on domestic stocks and mutual funds of Asian countries. Morningstar Asia also has an exclusive licence to market and distribute Morningstar products in Asia (excluding Japan, Korea and Australia) and develops Asian-focused derivative products from the standard Morningstar products.

In March 2001, the Company invested HK\$10 million in iLink Holdings Limited, a company with specialist activities to complement, facilitate and enhance the Net-Trans concept of taking off-line businesses on-line. iLink, established in 1999, is an Internet application service provider ("ASP") targeting small and medium enterprises ("SMEs") in Asia and primarily focusing on Greater China. iLink has a proven management track record and an established specialist niche in a rapidly expanding market; factors that the Company believes will bear fruitful cooperation opportunities in the future.

In April 2001, the Company expanded its Asian presence into the Philippines by acquiring the entire issued share capital of Sumoton Investment Limited ("Sumoton") from Digicom Resources Limited ("Digicom") for a consideration of HK\$19,475,000, satisfied in the form of the Company's shares. Sumoton holds interests in certain Internet related businesses in the Philippines, including the provision of Internet access and e-commerce platform.



Management Discussion and Analysis

In May 2001, SIIS-UCM Holdings Limited, a subsidiary of the Company, entered into a joint venture agreement with Softbank Internet Fund and D-Fashion Inc to operate Upepo. C. Maji Limited (“UCM”). The primary business of UCM will include the marketing, selling and leasing of digital printing systems in Hong Kong and the rest of Asia (excluding Japan), as well as producing garments and related items for markets using the sophisticated digital printing technology and expertise of D-Fashion. The joint venture will not only leverage upon D-Fashion’s digital printing business and experience in Japan, but will also leverage upon the Company’s existing garment and fabric business in China, as well as the Company’s established relationships and contacts in this field. UCM will also work closely with the Net-Trans Division of the Company in order to further the development of an Internet-based ASP system that will allow for the efficient ordering, processing, printing and delivery of the digitally printed products.

(2) *Net-Trans Division*

The key role of the Net-Trans Division is to assist traditional “offline” businesses to transform into “online” businesses that take full advantage of the Internet and other technological advances of the current information age, as well as to assist predominantly Internet-based “online” businesses to expand their business to include physical infrastructure of traditional businesses, in both cases helping such companies to achieve convergence of the old and the new. The division also assists in developing new business models and channels that utilize the Internet to attain capital growth for the company concerned. To achieve this, the division infuses appropriate IT resources to integrate the Internet into existing business operations to cut costs, enhance efficiency, extend their reach into new marketplaces and expand customer base.

The Net-Trans Division has helped the Company evaluate investment opportunities and potential alliances that could bring synergies within our core business functions and investee companies. The division has also performed business, financial and technology due diligence and provided recommendations that led to the Company’s subsequent selection of investments in Internet and related technology businesses.

The Net-Trans Division has conducted extensive automation and achieved substantial operational improvements of the Company’s dyestuffs distribution business in the following areas: end-to-end business process analysis; technology evaluations; cost benefit analysis; planning and implementation of the automation from credit sales and retail sales support; ordering; inventory control; invoicing; purchasing to accounting. To harness the advantages of e-commerce technologies, the division intends to transform this traditional business by using an on-line platform to collaborate and do business with customers and suppliers. The Company believes that it will be able to reap the rewards of this transformation in the form of higher efficiencies, lower cost and improved profit in the years to come.

The Net-Trans Division’s expertise has also been utilized in the newly formed joint venture company UCM with the planning and setting up of a digital printing factory in Hong Kong as a showcase to sell digital printing factories for the design, printing and trading of printed materials to potential customers. These customers will form the basis for potential players within an ASP business community at a later stage of the project. The division devised recommendations on financial, technical feasibility and infrastructure design aspects of the project to ensure their successful implementation.