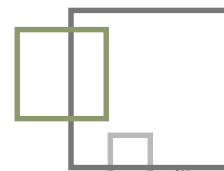


# Management Discussion and Analysis

---



To maximise returns on investments, the Net-Trans Division also assisted the Company's subsidiaries and investee companies periodically review and revisit their business plan and business processes to ensure their business objectives are met. The dyestuffs distribution division, garment manufacturing and property holding divisions are all currently being transformed from traditional off-line businesses into enhanced on-line businesses where IT resources and capabilities are being infused to enable greater operational efficiency. This is in line with Management objectives of taking off-line business on-line via the Net-trans Division. The division offers various technology services to the Company's subsidiaries and investee companies, such as consultancy, project management, application development, IT operation support and e-solutions deployment.

- **Financial Services Division**

This new division acquired in April 2001, accounting for 28% of the Group's turnover, recorded HK\$52.2 million in turnover for the year ended 30 June 2001. An operating loss of HK\$18 million was recorded for the year.

This division comprises investment banking services and financial products, brokerage services, asset management, and securities research which all fall under the SBI E2-Capital Limited group of subsidiaries. Whilst the Board welcomes the many benefits that are brought about by this diversification, the Board will also take measures to monitor and manage any additional risks arising from this new division.

- (1) *Investment Banking Services*

The investment banking activities performed well despite changing and challenging market conditions and maintained stable growth. In June 2001 alone, the team executed share placements amounting to a combined total of HK\$488.6 million for Greencool Technology, Beijing Beida Jade Bird and Tianjin Development, respectively a private enterprise, a H Share company and a Red Chip.

The division successfully entered the Singapore market under the name SBI E2-Capital Pte Limited ("SBI E2-Capital Singapore"), and secured a position there earlier this year as the first independent corporate finance house, unlinked to any brokerage or bank, licensed by the Monetary Authority of Singapore to lead-manage IPOs and to function as Financial Adviser in M&A transactions. Since receiving this endorsement, SBI E2-Capital Singapore has lead-managed 4 IPOs on both the Singapore Main Board and SESDAQ Exchanges.

The financial services presence in Silicon Valley, USA, was strengthened in June 2001 by the opening of a second US office, in Newport Beach, California. Operating under the name SBI E2-Capital (USA) Limited, the teams have been working in an advisory capacity with a growing base of US clients. The intention is to further strengthen the US operation through strategic acquisitions and partnerships, in anticipation of the need to provide greater breadth and depth of services to clients as the year progresses.



## Management Discussion and Analysis

---

### (2) *Broking Services*

Despite the volatile securities market, SBI E2-Capital Securities Limited was not exposed to any significant credit risk and retained its market share throughout the three months from April to June of 2001 after the Group's acquisition.

The division will remain alert to the consequences of a possible prolonged contraction in the volume of securities trading and an increase in competition to service the investment community as the market approaches the deregulation of brokerage commission in April 2002.

An on-line securities trading service e2trader.com ([www.e2trader.com](http://www.e2trader.com)) was launched in March this year.

### (3) *Research*

This division expanded its research coverage from that of technology companies to include media, telecom and consumer companies, in particular those that are operating in Greater China, and has led to an increase in the volume of research commentary delivered during the three months period under review.

The increase in research coverage on PRC corporates signifies the commitment to better understanding players and trends within the PRC market and to highlighting them to bring them to international capital markets.

### (4) *Asset Management*

In April 2001, SBI E2-Capital expanded its financial business horizon to the asset management arena with the establishment of a new subsidiary, SBI China Provident Capital Management Limited ("SBI China Provident"). SBI China Provident intends to manage a family of total return funds focusing on the Asia Pacific region. The first of these is "The SBI Asian Total Return Portfolio", which aims to achieve an absolute US Dollars gain rather than simply mimic or beat relevant asset classes' indices.

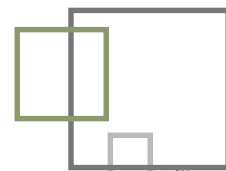
### (5) *Financial Products*

A new division, Global Equities & Structured Products, was established in April 2001 in response to investors' growing calls for the right tools to globalise their investments and to allow them to access and utilize international derivative instruments in order to meet their increasing risk management requirements. Progress remained steady throughout the three months period under review.

- **Dyestuffs Distribution Division**

Accounting for 21% of the Group's turnover, this division recorded HK\$38.6 million in turnover for the year ended 30 June 2001, compared to the previous period from 1 April 1999 to 30 June 2000 (HK\$67.5 million). This division recorded an operating loss of HK\$2.8 million for the year under review compared to an operating loss of HK\$2.7 million for the previous period.

Where feasible, our restructuring strategy for this division included transforming its off-line operations into e-commerce operations with the assistance of our Net-Trans Division. 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.



During the year under review, the Company disposed of its interests in Takson Limited, a wholly owned subsidiary, which has equity interests in Nanhai Shiquan Textile Auxiliary Factory, in the PRC.

- **Household Fabrics and Garment Manufacturing Division**

The Garment Manufacturing Division accounted for 34% of the Group's turnover. This division recorded a turnover of HK\$62.4 million for the year ended 30 June 2001 compared to HK\$79.3 million for the last period from 1 April 1999 to 30 June 2000, an operating profit of HK\$3.7 million was recorded for the year under review compared with an operating profit of HK\$2 million for the last period.

During the year, the Company has managed to streamline the various subsidiaries in order to dedicate resources to the profitable units while disposing of the loss-making units. As for the Household Fabrics Manufacturing Division, the discontinued operations, accounted for 7% of the Group's turnover. Turnover recorded fell to HK\$13.0 million from HK\$39.3 million while operating losses increased to HK\$1.1 million from HK\$0.8 million for the year ended 30 June 2001.

A gain of HK\$14.5 million arose from the disposal of the Household Fabric Manufacturing Division which included two companies, Alliance Printing and Manufacturing Company Limited and Asiapeak International Limited in December last year. Both companies were wholly owned and loss-making subsidiaries, engaged in the household fabrics and bed-linen manufacturing business. The disposals were carried out in the best interests of the Company.

We will continue to monitor costs and review operations and where appropriate, and take the necessary steps to further reduce loss-making subsidiaries.

- **Property Holding Division and Others**

This division successfully turned to an operating profit of HK\$2 million for the year under review from an operating loss of HK\$13.4 million in the previous period. During the year, the Group realized a surplus of HK\$1.5 million from revaluation of investment properties (the previous period: a deficit of HK\$9.2 million).

Owing to a stream-lining of the operations, however, the division recorded a turnover of HK\$16.1 million for the year ended 30 June 2001 from HK\$17.8 million in the previous period. The division accounts for 9% of the Group's turnover.

Subsequent to the financial year end, in July 2001, the Group disposed of two properties and received additional cash inflow totaling HK\$5.6 million. The Group shall continue to dispose of its non-core assets and properties, where appropriate, during the progress of diversifying its business activities into Internet and Internet related businesses.

The operating loss of the Group's 57.9% owned country club operation decreased by 75% to HK\$2.1 million for the year under review compared to an operating loss of HK\$8.4 million for the previous period.



# Management Discussion and Analysis

---

## Prospects

The current lackluster economic conditions are not expected to improve significantly over the remainder of this year. However, the Company is hopeful that, in the absence of a further deterioration in the state of terrorist conflicts in the U.S., there should be signs that a market upturn will begin to materialize possibly within the first half of 2002. Once this happens, the Company expects to be able to reap returns from the investments it has made so far.

Whilst the Company will still continue to closely monitor new opportunities that may arise and invest when good opportunities arise, the primary focus of the Company for the immediate period ahead will be on the management of existing investments to realize their highest returns. Generating liquidity for the Company and to be able to return investments to investors in the shortest time frame possible will be a key objective. Apart from exit strategies via IPOs of the investee companies, the Company will look for opportunities to privately sell equity to other trade investors or other strategic partners, as well as actively explore the possibility of mergers and acquisitions and alliances between portfolio investee companies within the Softbank group for the purpose of repackaging them to become more attractive for an IPO or trade sale.

To this end, the Company will leverage off the expertise and resources of SBI E2-Capital, who have built up a successful track record in investment banking, corporate financial services, M&A, corporate restructuring and deal brokering in general. SBI E2-Capital has enormous experience in helping companies to achieve IPOs or trade sales. The Company will also look to strengthen its ties with the portfolio companies of both the Softbank Investment group as well as Softbank Corp. to maximise the chances of achieving exits and at the highest valuations possible.

The Company is also aggressively exploring opportunities to further leverage the Softbank group's dominance in Japan together with the Company's strength in Greater China. In this regard, the Company sees an opportunity to assist Chinese companies in penetrating the Japanese market, and also to help Japanese companies expand their presence into China.

As a subsidiary of the multinational Softbank group with a presence in both developing countries like China as well as developed markets such as Japan and the U.S., the Company is able to spread its risk across several regions and have better access to the capital markets for fund-raising. In this light, the Company is optimistic about the prospects of success that lie ahead.

## Liquidity and Financial Resources

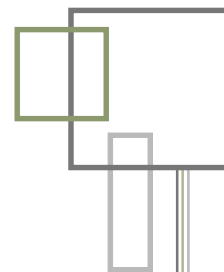
At 30 June 2001, the Group had total available banking facilities of approximately HK\$63 million of which HK\$43 million remained unutilized. In addition, the Group had bank and cash balances of approximately HK\$186 million on the same date. This represents a substantial increase over the HK\$78 million held on 31 December 2000, due largely to the acquisition of SBI E2-Capital.

At 30 June 2001, the total borrowings of the Group amounted to HK\$269,188,000 out of which HK\$261,676,000 and HK\$1,721,000 are repayable within one year and in the second year, respectively. The remaining borrowings of the Group of HK\$5,791,000 are repayable in the third to fifth year. The Group's borrowings denominated in Hong Kong dollar and Renminbi were HK\$260,697,000 and HK\$8,491,000 respectively.

The Group hedged its market exposures arising from its writing in the over-the-counter equity options by holding certain listed warrants. Through the use of hedging strategies and products, financial risks of these options are contained to a desirable level.

# Management Discussion and Analysis

---



At 30 June 2001, the gearing ratio of the Group was 48.7% (at 30 June 2000: 7.6%) calculated by dividing the total borrowings of HK\$269,188,000 (at 30 June 2000: HK\$26,052,000) by shareholders' funds of HK\$553,103,000 (at 30 June 2000: HK\$344,126,000).

## Charges on Group Assets

At 30 June 2001, the Group's banking facilities were secured by properties of the Group with net book value of HK\$74,698,000 (at 30 June 2000: HK\$82,500,000) and a bank deposit of HK\$5,000,000 (at 30 June 2000: Nil).

## Employees and Management

With the acquisition of SBI-E2 Capital, the total number of employees of the Group stands at about 960. Employees are offered discretionary bonuses based on merit and performance. The Group also encourages and subsidizes employees to enroll in external training courses and seminars organized by professional bodies. Details of the Group's existing share option scheme were disclosed in the circular of the Company dated 25 September 2000.

In March 2001, Mr Wong Kean Li joined the Company as Vice President, Corporate Strategy and Business Development. He brings to the Company extensive experience in structuring investment deals to achieve maximum investor and shareholder protection. Formerly the Vice President, Business Development of hongkong.com Corporation and Senior Counsel and Business Development Director of chinadotcom corporation, Mr Wong played an instrumental role in achieving the successful listing of hongkong.com at the peak of the market. Mr Wong, who holds an MA in law from Cambridge University, England, was previously a solicitor with Clifford Chance specializing in China law as well as corporate and Internet/technology matters.

In April 2001, Mr Wong Sin Just joined the Company as Chief Executive Officer (as well as joining the Board as an Executive Director). The Board considers this a key hire as Mr Wong brings with him a wealth of management experience, including as founder and Chief Executive Officer of E2-Capital (Holdings) Limited (HKSE:0378) and Managing Director of BNP Prime Peregrine Securities Limited. (Please refer to the "Biographical Details of Directors" section for more details of Mr Wong.) His appointment will also ensure the smooth integration of SBI E2-Capital Limited, which was majority acquired by the Company in April 2001, with the operations of the Company.

During the year and up to the date of this report, there were also other changes to the Board of the Company. Details of the changes and the experience of the new Directors who were appointed to strengthen the management team are included in this Annual Report under the "Report of the Directors" and the "Biographical Details of Directors" respectively.

By Order of the Board

**WONG SIN JUST**

*Chief Executive Officer*

HONG KONG, 20 September 2001