



# Report of the Directors

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## Substantial shareholders

At 30 June 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name	Number of ordinary shares of HK\$0.10 each	%
SBIIH*	909,903,061	40.52
Softbank Finance Corporation* ("SBF")	260,000,000	11.58

\* SBIIH is a direct wholly-owned subsidiary of SBI. SBF owns 83% interests in SBI and is in turn a direct wholly-owned subsidiary of Softbank Corp., a company incorporated in Japan and the shares of which are listed on the Tokyo Stock Exchange.

## Purchase, sale or redemption of shares

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

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Connected transactions

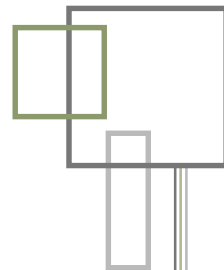
During the year ended 30 June 2001, the Group entered into the following transactions which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and are required to be disclosed in accordance with Chapter 14 of the Listing Rules:

1. Pursuant to a Share Purchase Agreement dated 15 August 2000, the Company agreed to acquire from Advanced Internet Visions Limited ("AIV") 1,867,200 shares in Morningstar Asia Limited ("Morningstar Asia") and SBF agreed to acquire from Morningstar Inc. ("Morningstar") 1,867,200 shares in Morningstar Asia respectively, each representing 10% of the issued share capital of Morningstar Asia, at a consideration of approximately HK\$18,672,000 by each of the Company to AIV and by SBF to Morningstar.

The Company, SBF, Morningstar, AIV and Morningstar Asia entered into a Joint Venture Agreement which contains provisions relating to the respective rights and obligations of the shareholders of Morningstar Asia. The Joint Venture Agreement took effect on 7 November 2000, being the completion date of the said Share Purchase Agreement.

The Share Purchase Agreement and Joint Venture Agreement constituted connected transactions for the Company as SBF is a controlling shareholder of the Company.

2. Pursuant to a Subscription Agreement dated 31 January 2001, the Company issued 132,653,061 shares to SBIIH, a substantial shareholder of the Company, at a price of HK\$0.98 per share for an aggregate subscription price of HK\$130 million. The Subscription Agreement constituted a connected transaction for the Company under Rule 14.26(3) of the Listing Rules.



## Connected transactions (continued)

3. Prior to the Group's acquisition of a 51% interest in SBI E2-Capital Limited, E2-Capital (Holdings) Limited ("E2-Capital") has given to the Monetary Authority of Singapore ("MAS") a guarantee (the "E2-Capital Guarantee"), as required under the MAS Investment Adviser Licence, pursuant to which E2-Capital undertakes to maintain SBI E2-Capital Pte Limited in a sound financial position and pay and settle all obligations and liabilities of SBI E2-Capital Pte Limited during the subsistence of the guarantee. In connection with the Group's acquisition of a 51% interest in SBI E2-Capital Limited on 2 April 2001,
- (a) the Group has agreed to, amongst other things, provide to the MAS a guarantee (the "Group Guarantee"), as required under the MAS Investment Adviser Licence, pursuant to which the Group undertakes to maintain SBI E2-Capital Pte Limited in a sound position and pay and settle all obligations and liabilities of SBI E2-Capital Pte Limited arising during the subsistence of the guarantee; and
  - (b) the Group and E2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of SBI E2-Capital Pte Limited should be determined by reference to their respective shareholdings in SBI E2-Capital Limited. Accordingly, the Group has agreed to indemnify E2-Capital for 51% of any claim under the E2-Capital Guarantee and E2-Capital has agreed to indemnify the Group for 49% of any claim under the Group Guarantee.

The Group Guarantee and the provision of the indemnity by the Group to E2-Capital constitute connected transactions for the Company under Rules 14.26 of the Listing Rules.

In addition to the above, SBI E2-Capital Limited ("SBI E2"), a subsidiary of the Group, entered into a Back Office Support Agreement (the "BOS Agreement") and a Office Space Sharing Agreement (the "OSS Agreement") with E2-Capital on 17 July 2001.

Under the BOS Agreement, E2-Capital would provide company secretarial and compliance services, financial oversight and treasury management, human resources and administrative services, corporate communications and information technology services to SBI E2 and its subsidiaries for an initial term of one year commencing from 1 July 2001. In return, SBI E2 agreed to reimburse E2-Capital based on an agreed percentage of the actual cost incurred by E2-Capital but capped at the higher of (i) HK\$10,000,000 or (ii) 3 per cent of the value of the Group's net tangible assets as disclosed in the then latest published audited accounts of the Company.

Pursuant to the BOS Agreement, SBI E2 further agreed to reimburse E2-Capital for services fees of HK\$3,395,000 in connection with the back office support services provided by E2-Capital during the period from 1 April 2001 to 30 June 2001.

Under the OSS Agreement, E2-Capital would allow SBI E2 and its subsidiaries to occupy certain floor area of the premises at Henley Building (the "Premises") for an initial term of one year commencing from 1 July 2001 at a monthly fee of HK\$231,585; and SBI E2 would also reimburse E2-Capital for the management fee, utilities charges and rates actually incurred by E2-Capital for the Premises on a pro-rata basis according to the gross area occupied by the SBI E2 Group.

Pursuant to the OSS Agreement, SBI E2 also agreed to reimburse E2-Capital for monthly fees, management fee, utilities charges and rates of HK\$891,000 in connection with the occupation of the relevant portion of the Premises during the period from 1 April 2001 to 30 June 2001.



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## **Connected transactions** *(continued)*

The BOS Agreement and the OSS Agreement (the “Transactions”) constitute connected transactions for the Company since E2-Capital is a substantial shareholder of SBI E2.

The Company has been granted a waiver of compliance with the connected transaction requirements as set out in Chapter 14 of the Listing Rules in respect of the Transactions for a period of three financial years ending 30 June 2004 subject to, inter alia, the following conditions:

- (a) the independent non-executive directors of the Company will review the Transactions annually and confirm in the Group’s next annual report that:
  - (i) the Transactions have been entered into by the Group in the ordinary and usual course of its business;
  - (ii) the Transactions have been conducted on normal commercial terms;
  - (iii) the Transactions have been entered into in accordance with the terms of the agreements governing such transactions; and
  - (iv) for each financial year of the Group, the total consideration payable by SBI E2 to E2-Capital under each of the BOS Agreement and the OSS Agreement has not exceeded the higher of either HK\$10,000,000 or 3% of the audited book value of the then published net tangible assets of the Group (the “Cap Amount”);
- (b) the Company’s auditors will review the Transactions annually and confirm in a letter to the board of directors of the Company stating that:
  - (i) the Transactions have received the approval of the Company’s board of directors;
  - (ii) the Transactions have been entered into in accordance with the terms of the agreements governing the transactions; and
  - (iii) the Cap Amount has not been exceeded the limit set out in paragraph (a)(iv); and
- (c) details of the Transactions in each financial year will be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Group for that financial year.

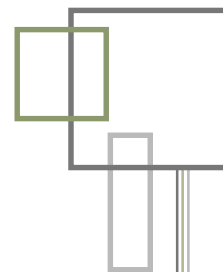
## **Code of Best Practice**

None of directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules at any time during the year.

## **Major customers and suppliers**

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

# Report of the Directors



## Directors' interests in competing business

During the year ended 30 June 2001 and up to the date of this report, the directors of the Company have interests in the following businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules:

Name of director	Name of company	Nature of competing business	Nature of interest
Yoshitaka Kitao	Softbank Asia Net-Trans Fund Ltd.	Venture capital	Director
	E*TRADE Korea Co., Ltd.	Financial services	Director
Wong Sin Just	e2-Capital Venture Ltd.	Venture capital	Director and indirect interest in shares
	Softbank Asia Net-Trans Fund Ltd.	Venture capital	Director
	Softbank China Venture Investments Ltd.	Venture capital	President
Akira Kajikawa	Softbank China Venture Investments Ltd.	Venture capital	Director
Chang Ming Jang	Softbank Asia Net-Trans Fund Ltd.	Venture capital	Director
Yip Hak Yung, Peter (ex-director)	China.com Studios Inc.	Venture Capital	Director
	China.com Corporation Ltd.	Venture Capital	Director
	New World Cyberbase Ltd.	Venture Capital	Non-executive director (resigned on 9 March 2001)

Although the companies listed above operate in similar fields as certain divisions of the Company, the Board believes that the directors concerned are able to manage any potential conflicts of interest arising from their respective directorships and/or interest in such companies. In addition, the Board believes that the strategic and business policies of such companies are significantly different from those of the Group.



## Report of the Directors

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### **Auditors**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Price Waterhouse was appointed as our auditors in place of Ernst & Young on 1 April 1998. Subsequent to the merger of Price Waterhouse and Coopers & Lybrand, PricewaterhouseCoopers has been appointed on 28 September 1999.

On behalf of the Board

**YU KAM KEE, LAWRENCE**

*Chairman of the Meeting*

HONG KONG, 20 September 2001