

BUSINESS REVIEW AND PROSPECTS

Being the flagship of SOFTBANK CORP. in Asia (ex-Japan), Softbank Strategic has been actively restructuring and reengineering its business model to fit itself into the objectives and strategies of SOFTBANK CORP. During the period under review, the Group has fine-tuned its business direction in which venture capital, consultancy, technology and financial services will now underpin the foundations of the Group in the years to come. In view of the current downturn in market conditions, the Group has taken the opportunity to realign its business focus to better adapt to current and expected improvements in market conditions.

Whilst the Group continues to maintain a cautious outlook towards investments in the short term, it is nevertheless optimistic of the future prospects of the industry, and believes it is well-positioned to capture the upside when the market recovers.

Investment Holding Division

The Investment Holding Division accounted for approximately 0.6% of the Group's turnover. The division maintained HK\$650,000 in dividend income for the six months ended 31 December 2001, similar to its performance over the corresponding six months ended 31 December 2000. The division recorded an operating loss of HK\$11.0 million for the period under review compared to an operating loss of HK\$10.3 million for the corresponding six months ended 31 December 2000.

The investment holding activities of the Group are performed by the Business Development Department with the assistance of the Net-Trans Department. During the period, the Investment Holding Division was in negotiations regarding several investment targets (including that of ebizal Holdings (see further below)). It has also been actively exploring the potential for other strategic acquisitions and managing the existing investments.

In October 2001, the Company invested HK\$3.9 million in The SBI Asian Total Return Portfolio, a fund of SBI China Provident Capital Management Limited ("SBI China Provident"). The fund is a pan-Asian absolute-return vehicle, and represents the first of a family of total-return funds focusing on the Asia-Pacific region to come. Judging from the track record of the management team of SBI China Provident, the Group is optimistic that the fund will achieve an absolute US Dollars return rather than simply mimicking relevant asset class indices.

Subsequent Events

In January 2002, the Company acquired the entire equity interest of ebizal (Holdings) Limited ("ebizal Holdings"), formerly known as ebizal Investments Limited, a provider of marketing services, technology solutions and consulting services, from E2-Capital (Holdings) Limited ("E2-Capital Group") for a total consideration of approximately HK\$68.1 million. The consideration for the acquisition was satisfied as to approximately HK\$51.9 million by way of disposal of the Group's Dyestuffs Distribution Division and a sum of approximately HK\$16.2 million in cash. This acquisition follows from the Group's previously-stated intention of concentrating on its core business activities and disposing of its non-core businesses. With the acquisition and disposal, the Group has made swift and efficient progress towards this end.

In January 2002, the Investment Holding Division also acquired 60% interest in Software Gateway Limited (which holds 99% of Electrum Information Technology Co., Ltd. ("Electrum")) for a total consideration of HK\$18.0 million. Electrum, based in Guangzhou, primarily develops a comprehensive range of customised web-based and software solutions to business and public sectors, with one of its most notable customers being Guangdong Mobile. The acquisition represents part of the Group's efforts to foster a technology and software development arm within the Group, particularly within China. Electrum, particularly with its current client list, stands in a very good position to allow the Group to expand its presence and contacts in the Mainland.

Financial Services Division

The Financial Services Division accounted for approximately 51.1% of the Group's turnover. It recorded HK\$53.5 million in turnover for the six months ended 31 December 2001 and an operating profit of HK\$0.2 million before deducting the amortisation of goodwill of HK\$6.2 million.

Softbank Strategic has a 51% stake in SBI E2-Capital Limited ("SBI E2-Capital"), which involves in a wide spectrum of businesses including investment banking, securities broking, research, asset management and financial products. The performance of the Financial Services Division mainly reflected the performance of SBI E2-Capital.

During the period under review, SBI E2-Capital maintained steady progress in its investment banking and broking services, despite changing and challenging market conditions. Corporate finance/advisory fee income and brokerage commission accounted for 33% and 45% respectively of SBI E2-Capital's turnover. Geographically, Hong Kong operation accounted for 76% of SBI E2-Capital's turnover.

During the period, the China Securities Regulatory Commission granted a subsidiary of SBI E2-Capital a licence to act as a brokerage house in the B share market and as a lead manager in the issue of B shares in the PRC.

Its Singapore subsidiary, SBI E2-Capital Pte Ltd ("SBI E2-Capital Singapore") was also granted the Monetary Authority of Singapore's ("MAS") dealer licence to deal in securities, organise underwriting and placement syndicates in IPOs, broker private equity fund raising and to act for offerors in take-over transactions in Singapore. SBI E2-Capital Singapore was the first independent corporate finance house, unlinked to any brokerage or bank, licensed by the MAS. During the period under review, SBI E2-Capital Singapore launched 3 IPOs on the Singapore SESDAQ Exchange.

Its US-based subsidiary, SBI E2-Capital (USA) Limited formed a strategic alliance with the Nasdaq listed vFinance, Inc., a rapidly growing and fully licensed dealer broker and financial services firm, thereby further strengthening SBI E2-Capital's regional underwriting capability and distribution network.

The Hong Kong operation of SBI E2-Capital was voted the second best local house in *The Asset's* "Asia Pacific Equities Benchmark 2001". And its research division received notable company and individual rankings in the *asiamoney* 2001 Brokers Poll.

During the period under review, the Hong Kong operation participated in launching 16 IPOs on the Hong Kong Main Board and GEM Board. And it also participated in other 6 fund raising activities, including the share placements for Softbank Strategic, TechCap Holdings, Greater China Sci-Tech, Tianjin Development, Beijing Beida Jade Bird Universal Sci-Tech and Greencool Technology.

Subsequent Event

In January 2002, SBI E2-Capital Singapore arranged 2 IPOs on the Singapore SESDAQ Exchange.

For the period from January to March 2002, the Hong Kong operation participated in launching 12 IPOs in Hong Kong.

Dyestuffs Distribution Division

The Dyestuffs Distribution Division accounted for approximately 15.2% of the Group's turnover and recorded HK\$15.9 million in turnover for the six months ended 31 December 2001, representing a decrease of 20.5% over the corresponding six months ended 31 December 2000. This division recorded an operating loss of HK\$1.2 million for the period under review compared to an operating loss of HK\$1.5 million for the previous period.

Subsequent Event

In January 2002, Softbank Strategic underwent a strategic restructuring by disposing of the Dyestuffs Distribution Division to E2-Capital Group as part of the consideration for acquisition of the entire stake in ebizal Holdings. The disposal is part of the Group's continuing efforts in divesting from its non-core assets and focusing on its core businesses.

Household Fabric and Garment Manufacturing Division

Since the Company disposed of its loss-making household fabric manufacturing business in December 2000, the operating result of the division for the six months ended 31 December 2001 solely reflected the performance of the garment manufacturing business. The garment manufacturing business accounted for approximately 24.8% of the Group's turnover. Turnover for the garment manufacturing business dropped by 14.1% to HK\$26.0 million for the six months ended 31 December 2001, from HK\$30.2 million for the corresponding six months ended 31 December 2000. Operating profit for the garment manufacturing business decreased by 61.0% to HK\$647,000 from HK\$1.7 million over the corresponding six months ended 31 December 2000.

Property Holding Division & Others

The Property Holding Division and others accounted for approximately 8.2% of the Group's turnover. Turnover of the division increased by 3.7% to HK\$8.6 million for the six months ended 31 December 2001 compared to HK\$8.3 million for the corresponding six months ended 31 December 2000. An operating loss of HK\$2.7 million was recorded in the division for this period, compared with an operating profit of HK\$3.7 million for the previous corresponding period. During the period, the Group realised a deficit of HK\$3.4 million from revaluation of investment properties (a surplus of HK\$3.6 million for the previous period).

In July 2001, the Company disposed of one property and one property holding company for a total consideration of HK\$5.6 million. No gain or loss was recorded for these disposals.

Subsequent Event

In January 2002, the Company disposed of two property holding companies to E2-Capital Group as part of the consideration for acquisition of the entire stake in ebizal Holdings, as part of the Group's policy of focusing on its core businesses.

Other Corporate Matters

In December 2001, the Company provided a guarantee to the MAS in respect of the dealer licence granted to SBI E2-Capital Pte Ltd, a non wholly-owned subsidiary of Softbank Strategic. The guarantee ensures that Softbank Strategic will undertake to maintain SBI E2-Capital Pte Ltd in a sound financial position and pay/settle all obligations and liabilities of SBI E2-Capital Pte Ltd arising during the subsistence of the guarantee. The directors of Softbank Strategic considered that the provision of the guarantee, which led to the granting of the MAS dealer licence to SBI E2-Capital Pte Ltd, enables the Group to diversify its business activities in Singapore and thus enlarge its revenue base through SBI E2-Capital Pte Ltd.

In December 2001, the Company entered into a placing agreement with First Shanghai Securities Limited ("First Shanghai") to place 100 million new shares at HK\$0.30 each. The total net proceeds of the placing of approximately HK\$29.0 million will be used for investments in the PRC, including the setting up of a new China fund and other private equity investments, as well as general working capital for the Company and its subsidiaries. The Directors of the Company considered that it was in the best interests of the Company to raise further capital from the equity market in order to further enhance the capital base, strengthen the cash flow, and facilitate the investment strategy.

Subsequent Events

In January 2002, the Company further entered into a placing agreement with First Shanghai and a placing and subscription agreement with First Shanghai and Paper Rich Investments Limited, a subsidiary of E2-Capital Group, in respect of the placing, the top-up placing and the subscription involving the issue of an aggregate of 80 million new shares of the Company at HK\$0.30 each. The total net proceeds of the placing and the subscription of approximately HK\$23.1 million will be used for the same purposes as the prior placing in December 2001 including the setting up of a new fund in China.

In January 2002, Mr Chan Kok Chung, Johnny resigned as Non-executive Director and Mr Kang Dian was appointed as an Independent Non-executive Director of the Company. The Directors considered that Mr Kang's extensive experience in Mainland China will be immensely beneficial to the Company, particularly in view of the Company's increasing business focus in the Mainland.

Prospects

The Group's direction will be concentrated in the following core areas: venture capital, financial services, consultancy and technology.

Table 1: New Business Structure

Venture Capital	Financial Services	Consultancy	Technology
- Direct Investment Holdings - Fund Management	- SBI E2-Capital	- Ebizal Marketing - Ebizal Net-Trans	- Electrum - Sun-Tech

Venture Capital

The Group aims to build and grow a successful venture capital business in Greater China, with a primary focus on the Mainland China market. In order to increase the investment returns from investee companies, the Group adds value to the investee companies through several means, for example, by taking an active role in the management of the companies, advising them on the formulation of respectable business plans and strategies, leveraging upon the Softbank Group's contacts and resources where necessary, as well as supporting them with strong financial expertise.

The Group has been making investments directly through Softbank Strategic itself, and via the funds managed by Softbank China Venture Investments Limited ("SBCVI", a subsidiary of its parent, Softbank Investment Corporation). SBCVI currently manages Softbank Asia Net-Trans Fund and co-manages the HKSAR Government's Applied Research Fund jointly with Techpacific.com via a joint venture, Softech. Through a consultancy and management agreement between Softbank Strategic and SBCVI, Softbank Strategic provides consultancy and management services to SBCVI on business strategy and funds management.

The Group works closely with SBCVI to explore synergistic partnership or alliances between their investment portfolios to achieve mutual benefits.

The Group is also aggressively proceeding to set up its own venture capital funds in Mainland China. The Group intends to set up joint venture funds with major municipal governments in Mainland China, including Shenzhen, Shanghai, Beijing and Tianjin, targeting the technology, telecom, and biotech related industries (amongst others). The Group will play an important role in managing the funds.

Financial Services

SBI E2-Capital not only represents an earning growth driver for the Group, but also plays a strategic role in strengthening the Group's capability to accomplish the investment goal of its venture capital portfolio. The input of financial advice and financial engineering skills from SBI E2-Capital is expected to assist the Group and its investee companies in improving their financial positions and in implementing financial transactions to enhance their investment returns.

Consultancy

The Group has undergone a strategic restructuring by the acquisition of E2-Capital Group's entire stake in ebizal Holdings, a provider of marketing services, technology solutions and consulting services, in consideration of (inter alia) its non-core dyestuffs operations. The acquisition of ebizal Holdings allows the Group to significantly strengthen its consultancy operations previously provided solely under the Net-Trans Division, as well as bringing meaningful synergies to its core investing activities.

The consultancy operations will help the Group to achieve its objective in being the cultivator and nurturer of its investee companies by enabling it to play a more proactive role in their investments through the consultancy services. Consultancy resources can now be delivered to investee companies and clients through the Ebizal Net-Trans team on technological advisory, ebizal Holdings on business advisory, and SBI E2-Capital on financial advisory.

Technology/Software

One of the Group's objectives is to develop a strong technology/software division in line with the Softbank Group's business model. The Group aims to take a significant or majority stake in such companies which are likely to prove synergistic with other technology/software companies within the portfolios of the Group, SBCVI, and the entire Softbank Group.

Sun-Tech Group, held under ebizal Holdings, is a systems integrator focusing on the Hong Kong education sector. In accordance with the HKSAR Government initiative to improve the usage of IT services in the education sector and to set up multimedia learning center in secondary schools, Sun-Tech Group has been selected as one of the only three preferred vendors for the project. Having more than 180 schools installed with its system, Sun-Tech is the market leader in Hong Kong. Sun-Tech intends to expand its business scope both vertically to other sectors and horizontally to the education sectors in other countries (i.e. Japan and the PRC).

In January 2002, the Group took majority control of Electrum, a developer of customised web-based and software solutions for business and public sectors. (For further details please see "Investment Holding Division" section above.) Electrum, with key clients such as Guangdong Mobile, stands in a very good position to allow the Group to expand its presence and contacts in the Mainland.