MANAGEMENT DISCUSSION AND ANALYSIS

The 2001/2002 Final Results cover the 18-month period from 1 July 2001 to 31 December 2002.

CHANGE IN FINANCIAL YEAR END

With the change of financial year end from "30 June" to "31 December", this report includes the operating results for the 18-month period ended 31 December 2002 and the comparatives for the 12-month period ended 30 June 2001.

RESULTS AND DIVIDENDS

The Group attained a consolidated turnover of HK$334.3 million for the 18-month period ended 31 December 2002 (12-month period ended 30 June 2001: HK$187.5 million), consolidated loss attributable to shareholders of HK$497.5 million for the 18-month period (12-month period ended 30 June 2001: HK$97.2 million) and loss per share of HK$0.21 (12-month period ended 30 June 2001: HK$0.05). The Board has resolved not to pay any final dividend to shareholders (12-month period ended 30 June 2001: nil).

Included in the reported losses of HK$497.5 million were an impairment loss of HK$264.3 million in respect of goodwill for previously acquired subsidiaries, goodwill amortisation of HK$20.6 million, revaluation deficit of HK$18 million in respect of investment properties and a provision for impairment loss of HK$123.6 million for non-trading securities.

The above charges have no impact on the Group's operations, cash flows as well as revenue. Excluding these items, the Group would report a net loss of HK$71 million.

BUSINESS REVIEW

With the global economic slowdown and uncertainties, the Management has decided to undertake a conservative approach in consolidating business operations and prudent accounting policies.

The prolonged stock market slump and the global high-tech gloom, coupled with the escalating local unemployment rate and weak consumer sentiments, have adversely affected the Group's equity and debt investments in the internet and technology, travel related and property arenas. In view of this, the Group undertook a review of the value of its investment portfolio during the six months ended 31 December 2002. Based on the results of this review, the Group concluded that the fair value of the Group's investment in securities has diminished by an aggregate of HK$170.3 million, of which HK$123.6 million is currently considered a permanent diminution. Accordingly, a provision for impairment loss of HK$123.6 million has been made in respect of its equity interests in internet and technology, travel related investments and a technology fund as well as its debt investment in a private company whose principal activity is property development in Hong Kong. The remaining balance of HK$46.7 million has been accounted for as investment revaluation reserves on the balance sheet.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group also reassessed the carrying amounts of the goodwill for previously acquired subsidiaries, which were acquired during a period when market conditions were much more favourable than at present. The Directors, having taken into account the revenues generated from the acquired subsidiaries during the period under review, the prevailing uncertain and sluggish economic conditions, and the estimated future cash flows to be generated from the operations of the acquired businesses, are of the opinion that the premiums arising on the acquisition of the subsidiaries are not recoverable and should not be carried forward in the accounts. Accordingly, an impairment loss of HK$264.3 million was recognised. After accounting for this impairment loss, the Group's goodwill for previously acquired subsidiaries has been fully provided for.

During the 18-month period under review, the Group continued to refine its business model and operating direction in line with the objectives and strategies of SOFTBANK CORP., the parent company, under the prevailing market environment. Our three core businesses are:

- investment
- financial services
- consulting, marketing and technology services

1. Investment Holding Division

The Group has continued to pursue its vision of developing strong and diversified investment and venture capital businesses in Greater China, with a particular focus on Mainland China. The Group has been actively scrutinizing investments with high growth potential in the region, through direct investments and via setting up venture capital funds in Mainland China. The latter includes the involvement in the funds managed by Softbank China Venture Investments Limited ("SBCVI", a subsidiary of its parent company, Softbank Investment Corporation). The Group has also been proactively participating in the overall strategic planning and business development of the investee companies in terms of strategy formulation and financial support to enhance the operating performance and create greater returns for investors.

The Investment Holding Division contributed approximately 2% to the Group's turnover. Operating loss was HK$151.8 million for the 18-month period ended 31 December 2002 (12-month period ended 30 June 2001: HK$81.5 million). The increase in loss is mainly due to the inclusion of the attributable provisions of HK$98.2 million for non-trading securities, and a net loss of HK$3.1 million from partial disposal of its investment portfolio.

Direct Investment

In October 2001, the Company invested HK$3.9 million in The SBI Asian Total Return Portfolio (the "Portfolio"), an absolute-return vehicle launched by SBI China Provident Capital Management Limited ("SBI China Provident"). The Portfolio consisted of multi-asset classes across pan-Asia. In light of the current instability of the Asian public markets outside China, the Company has decided to increase its focus on Mainland China, and has therefore decided to terminate the Portfolio and reallocate resources to the burgeoning China market. The Portfolio is in the process of unwinding.

MANAGEMENT DISCUSSION AND ANALYSIS

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 consulting services, marketing services and technology solutions from E2-Capital (Holdings) Limited ("E2-Capital") for a total consideration of approximately HK$68.1 million. The consideration for the acquisition was satisfied through approximately HK$51.9 million by way of disposal of the Group's dyestuffs operation and two property holding companies, together with a sum of approximately HK$16.2 million in cash. (See "Consulting, Marketing and Technology Services Division" section below.)

In January 2002, the Group acquired approximately 60% interest in Electrum Information Technology Co., Ltd. ("Electrum"), a web-based and software solutions provider, for a total consideration of HK$18 million (see "Consulting, Marketing and Technology Services Division" section below).

In March 2002, the Company acquired 13.7% interest in Lai Fai International (BVI) Limited (formerly known as "Infogold Assets Limited"), one of the leading jewellery wholesalers engaging in manufacturing, trading, and retailing of jewellery in Hong Kong and Japan, for approximately HK$8.8 million. Subsequent to the period, on 26 February 2003, such interest was converted into 14,028,800 shares (10.96% shareholding) of Lai Fai International Holdings Limited ("Lai Fai") upon its listing on the GEM Board of the Stock Exchange of Hong Kong. The Company is currently leveraging the various strategic relationships of Lai Fai in China and exploring various partnership opportunities, including a project within the online auction sector.

In June 2002, the Company announced the proposed acquisition of 30% interest in Shenzhen Huijin Science & Technology Co. Ltd. ("Huijin"), a developer and distributor of hardware and software products primarily for the financial sector in Mainland China, subject to the satisfactory completion of due diligence. As the due diligence result of Huijin has not been satisfactory, the Company has decided not to proceed with the completion of the acquisition. However, negotiations are still ongoing with the vendors in an effort to come to an alternative solution acceptable to the Group.

In August 2002, the Company completed the acquisition of approximately 27.6% of Supresoft Imagis Inc. ("Supresoft") for a consideration of approximately HK$22.5 million, representing another strategic move to develop its technology and software distribution arm. Specialising in digital photogrammetry and image processing, Supresoft is the leading software developer and service provider of state-of-the-art survey, mapping and geospatial information systems in Mainland China. It possesses a commanding lead in the China market and has recently been gaining significant recognition in other countries such as Japan and the USA. During the period, it made a profit contribution of approximately HK$2 million which was equity accounted for in the share of results of associated companies.

In October 2002, the Group acquired shares in Vertex Communications & Technology Group Limited ("Vertex") at Vertex's initial public offering on the GEM Board of the Stock Exchange of Hong Kong, at a total price of HK$18 million. Vertex is a company that provides wireline based, local wireless, and cellular network engineering services to network carriers, and is also involved in the online media sector in China with joint venture relationships with Newsweek and other media conglomerates.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group invested a total amount of HK$110 million in Ananda Wing On Travel (Holdings) Limited ("AWO"), a leading Hong Kong travel company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong. Even though the recent slump in the travel sector caused by geopolitical uncertainties and the health scare has affected the share performance of AWO, the Group believes that AWO's fundamentals are still reasonably good.

Investment Management

During the 18-month period under review, the Company continued to provide consultancy and management services to SBCVI relating to the funds managed under SBCVI in exchange for monthly fee income. SBCVI is currently managing the Softbank Asia Net-Trans Fund and co-managing the HKSAR government's Applied Research Fund with Techpacific.com via a joint venture, Softech. The investment portfolio of SBCVI is made up of growing companies across various industries. The Group also works closely with SBCVI to explore into possible partnerships or alliances between their investment portfolios to achieve mutual benefits.

In September 2002, the Group signed a joint venture agreement with Shenzhen Capital Group Co., Ltd ("Shenzhen Capital") for the formation of "Softbank SZVC Venture Capital Management Co., Ltd." ("JV"). Shenzhen Capital is one of the largest and most well known domestic venture capital company in Mainland China. The JV was issued its business licence by the Shenzhen governmental authorities recently, and the Group is currently in the process of raising funds for management by the JV, along with a further RMB100 million already committed by Shenzhen Capital, for a planned total of RMB200 million. The JV will seek innovative companies in Mainland China with high-growth prospects, and will leverage upon the combined experience, expertise, and contacts within the industry of the Group and Shenzhen Capital in order to make the JV a success.

2. Financial Services Division

The Financial Services Division contributed to approximately 44% of the Group's turnover. The division recorded a turnover of HK$147.6 million for the 18-month period ended 31 December 2002 (12 month-period ended 30 June 2001: HK$55.3 million), and an operating loss of HK$16.3 million (12 month-period ended 30 June 2001: HK$21.3 million) before the amortisation and impairment loss of the attributable goodwill which amounted to HK$18.5 million and HK$225.1 million respectively.

The performance of the Financial Services Division reflected the performance of SBI E2-Capital Limited ("SBI E2-Capital") and its subsidiaries (collectively the "SBI E2-Capital group"). Services included investment banking, securities and commodities trading, research, asset management and financial products.

HK/China

During the 18-month period, SBI E2-Capital restructured its Greater China business by placing its operations in Hong Kong and Mainland China under SBI E2-Capital China Holdings Limited with the objective of integration of SBI E2-Capital group's resources to keep the group in tune with market conditions and economic trends and to maximize business results.

The period posed a tough operating environment for the securities brokerage industry. Market turnover shrank from an average daily turnover of HK$8.6 billion to HK$6.6 billion. In light of the difficult operating environment and lifting of minimum brokerage commission in April 2003, the management of SBI E2-Capital had implemented a series of cost control measures to reduce operating costs and to streamline on-line trading business. Gross commission of brokerage division was HK$58.4 million for the 18-month period ended 31 December 2002 (12 month-period ended 30 June 2001: HK$42.3 million) and sustained a loss before tax of HK$11.3 million for the 18-month period ended 31 December 2002 (12 month-period ended 30 June 2001: profit before tax of HK$2.4 million). In order to remain competitive and to be well positioned for the market recovery in the near future, the management of SBI E2-Capital will continue to implement cost rationalization measures and to enlarge its client base by increasing the institutional sales team.

Regarding margin financing business, the management of SBI E2-Capital took a prudent approach in granting credit to clients and thus the consistent poor market performance and high bankruptcy in Hong Kong did not expose the division to any significant credit risk throughout the period. As well, there was no significant provision made for bad and doubtful debts and advances to customers kept at a low level with less than HK$2 million outstanding as at 31 December 2002.

The SBI E2-Capital's investment banking activities as undertaken by SBI E2-Capital (HK) Limited, performed satisfactorily and recorded a profit before tax of HK$1.6 million (before inter segment expenses of HK$11.7 million) during the 18-month period ended 31 December 2002 (12 month-period ended 30 June 2001: HK$1.2 million) despite the market was not yet recovered with revenue stood at HK$20.4 million (12 month-period ended 30 June 2001: HK$9.8 million). During the period under review, the division successfully secured the role of co-sponsor and co-lead manager in the listing of Linmark Group Limited and MediaNation Inc. respectively. SBI E2-Capital (HK) Limited also emerged as the leading player in the equity capital market for small and medium enterprises.

With the receipt in December 2001 from the China Securities Regulatory Commission a licence to act as a brokerage house of the B Shares market and as a lead manager in the issue of B Shares in Mainland China, the division has been making progress in procuring mandates from Mainland China and regional clients and businesses so as to carry out fund raising exercises for them, focusing mainly on listings on the Stock Exchange of Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

During the 18-month period, our research team focused their effort on China export plays and industrial and consumer companies listed in Hong Kong with initial coverage on more than 60 stocks. At the same time, various corporate road shows were arranged in Hong Kong and Singapore with the aim of bringing the management of quality companies directly to institutional investors. At the beginning of 2002, SBI E2-Capital was ranked as the second best local house in Hong Kong by The Asset 2001 Broker Poll and the fourth most improved China research by Asiamoney 2001 Broker Poll.

Singapore

The Singapore division, SBI E2-Capital Pte Ltd has continued to perform well as an innovative corporate finance house in Singapore, unlinked to any brokerage or bank, and it has lead-managed 14 out of a total of 40 IPOs in Singapore's capital markets during the 18-month period. The division recorded a turnover of HK$43.2 million and an operating profit of HK$18.6 million during the period.

In December 2001, SBI E2-Capital Pte Ltd received from the Monetary Authority of Singapore ("MAS") a dealer's licence with the provision of guarantee by the Company. Subsequent to the period, in January 2003, the Company provided an undertaking (to replace the guarantee) to MAS for renewal of the capital markets services licence (formerly known as investment adviser licence and dealer's licence).

SBI E2-Capital Securities Pte Ltd, a fellow subsidiary of SBI E2-Capital Pte Ltd, has also submitted an application for a capital markets services licence with the provision by the Company of an undertaking to MAS, and an application for a non-clearing member status with the Singapore Exchange so as to further complement its range of services.

It is envisaged that the provision of the undertakings, which led to the granting of MAS licences, enables the Group to diversify its corporate financial advisory business into securities brokerage and trading business in Singapore and thus enlarge its revenue base through the Singapore operations. By then the securities brokerage businesses in Singapore and Hong Kong could foster closer tie and further enhancing the distribution network of the Group.

In December 2002, a corporate re-structure took place where SBI E2-Capital Holdings Pte Ltd was transferred out of the SBI E2-Capital group and directly owned by subsidiaries of the Company and E2-Capital. Subsequent to the period, in March 2003, Mr. K. B. Fung and Westcomb Profits Limited entered into agreements with the Group to purchase 10% interest in SBI E2-Capital Holdings Pte Ltd from the Group as a reflection of their confidence in the Singapore operations. After these restructurings, the remaining 18.56% equity interest in SBI E2-Capital Holdings Pte Ltd will be kept by the Group as long term investment.

USA

Subsequent to the period, the division ceased its involvement in the USA market in order to focus on the Greater China region. The division recorded a turnover of HK$13.6 million and an operating loss of HK$2.7 million.

3. Consulting, Marketing and Technology Services Division

Consulting, marketing and technology services accounted for approximately 17% of the Group's turnover. For the period under review, an operating profit of HK$472,000 was recorded before a provision of HK$25.4 million for impairment in value of non-trading securities in respect of its equity interest in an internet investment and debt investment in a private company together with the amortisation and impairment losses of the attributable goodwill which amounted to HK$1.9 million and HK$39.2 million respectively.

In January 2002, the Company acquired the entire equity interest of ebizal Holdings. This acquisition is in line with the Group's overall strategy of focusing its activities on companies that bring synergy to our core businesses, in which ebizal Holdings is a key addition. Mutually beneficial results are seen by integrating the capabilities of ebizal Holdings with those of other divisions in the Group.

Ebizal Marketing (Hong Kong) Limited, a wholly owned subsidiary of ebizal Holdings, is a full service public relations and marketing consultancy company. Ebizal Marketing aims to strategise, devise and implement comprehensive solutions to corporate, financial and consumer clients in order to enhance their corporate governance and creating new business value.

Sun-Tech group, also under ebizal Holdings, is a technology service provider specialising in the education sector. Added to its best-selling softwares for multimedia teaching and e-learning environment, the group has designed a new wireless response system to provide a simple interactive teaching and presentation tool. Well established in Hong Kong, its major revenue source, Sun-Tech has linked up with Hong Kong listed companies such as PCCW Limited and Automated Systems Holdings Limited to market its products with solid sales transactions recorded. It has also succeeded in expansion into international markets with distribution networks established in USA, Europe, Middle East and other Asian countries.

In January 2002, the Company acquired 60% interest in Software Gateway Limited (holding 99% of Electrum). Electrum, based in Guangzhou, is a developer of customised web-based and software solutions. In the 18-month period ended 31 December 2002, Electrum was awarded a number of contracts by China Mobile, one of its most notable customers, including the employee portal developed for Guangdong Mobile, and system-graded product based on the intelligent mobile switch maintenance system used by Guangzhou Mobile and Guangxi Mobile which will be the first switch maintenance system with graphics interface and is predicted to have good market potential. Electrum had also won the broadband city network billing system contract of China Unicom's Hainan Branch. Besides, Electrum has been developing the enterprise data business platform based on the 2.5G network to be launched by the end of April 2003, which is expected to become a new growth factor of the year. Based on its substantial experience and expertise of telecom system development, Electrum is well positioned to extend its services and products to other telecom operators.

4. Garment Manufacturing Division

The garment manufacturing business accounted for approximately 26% of the Group's turnover. It recorded a turnover of HK$88 million (12-month period ended 30 June 2001: HK$62.5 million) and an operating profit of HK$4.1 million (12-month period ended 30 June 2001: HK$3.6 million) respectively for the 18-month period ended 31 December 2002.

5. Property Holding Division & Others

The Property Holding Division and others accounted for approximately 5% of the Group's turnover. Turnover of the division amounted to HK$17.2 million for the 18-month period ended 31 December 2002 (12-month period ended 30 June 2001: HK$14.9 million). An operating loss of HK$18.1 million was recorded for the 18-month period ended 31 December 2002 that was largely due to the deficit of HK$18 million on revaluation of investment properties.

In July 2001, the Company disposed of one property and one property holding company for a total consideration of HK$5.6 million.

In January 2002, the Company disposed of two property holding companies to E2-Capital as partial consideration for acquisition of the entire stake in ebizal Holdings.

6. Dyestuffs Distribution Division

The Dyestuffs Distribution Division was disposed of in January 2002 as part of the consideration to E2-Capital for acquiring the entire stake in ebizal Holdings. It formed a key constituent of the Group's strategic business realignment and its sustained endeavors to divest from its non-strategic activities and focusing on its core businesses.

As the Dyestuffs Distribution Division was being disposed of in January 2002, the results only reflect its contribution up to the disposal date in the period. The division recorded HK$18.5 million in turnover which contributed about 6% of the Group's turnover for the 18-month period. A net gain of HK$1,013,000 was recognised in the consolidated profit and loss account on disposal of the two related subsidiaries.

7. Fund Raising Exercises

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. 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 then shareholder of the Company) in respect of the placing and top-up placing 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 above placing of approximately HK$52 million would be used in investments in Mainland China, including the setting up of a new China fund and other private equity investments, as well as general working capital for the Group. The Directors of the Company believe it was in the best interests of the Company to raise further capital in the equity market to further enhance the capital base, strengthen the cash flow, and facilitate the investment strategy.

In June 2002, the Company entered into a share placing agreement with SBI E2-Capital Securities Limited, a subsidiary, to place a total of up to 100 million new shares of the Company at a consideration of HK$30 million. Consequently, the share placing would not proceed owing to the significant price decline of the Company's shares on 26 July 2002 along with many other companies listed on the Stock Exchange on that day.

In August 2002, SIIS Treasury Limited (a wholly-owned subsidiary of the Company) issued 5% Guaranteed Convertible Notes due 2005 with an aggregate principal amount of HK$156.4 million of which Hutchison International Limited subscribed for an aggregate amount of HK$85 million which marks the beginning of potential future cooperation between the two companies. The balance was subscribed by various subscribers procured by the placing agents in pursuance of a note placing agreement. At the same time, the authorised share capital of the Company was increased from HK$500 million to HK$600 million.

The offering of convertible notes and the share placings were to fund a number of investments and potential investment opportunities in Hong Kong and Mainland China which bore a close correlation to the Group's clear and concise strategy to tap the Greater China market including those mentioned above under the Group's investment activity. The remaining net proceeds will be used as general working capital of the Group.

PROSPECTS

The coming year is expected to remain a mainly cautious one in the midst of global uncertainties, with the Hong Kong economy unlikely to make any significant recovery. The Group will maintain its prudent and conservative approach in its accounting policy as well as daily operations with the adoption of stringent and rational measures to reduce cost, streamline processes and enhance efficiency.

The Group has sufficient resources to undertake investment activities in its core areas of activities, and will continue to focus on investment, financial services as well as consulting, marketing and technology services. These businesses have proven to be synergistic with each other by allowing the integration of capabilities and resources to enable the Group to provide one-stop comprehensive services to investee companies and other customers. It is expected that these different sectors will continue to make steady development and eventually contribute net earnings to the Group.

The Group also looks forward to reaping the rewards of its earlier investments which are experiencing growth and expansion in line with expectations with the support and assistance from the whole Group. Some of them have reached a maturity point where they are either ready to go public (subject to market conditions) or being transferred to other potential investors in accordance with the exit strategy of the Group. On the other hand, the Group is now in good financial position to execute its strategy of channelling more investment into Mainland China to take advantage of the increasing number of excellent investment opportunities there.

Although the technology and IT sectors remain the Group's primary focus for investment, the Group is also looking across all industries for prospective investee companies which would bring synergy and value to the Group. To this end, the Group has earmarked several investment opportunities which have met that criteria, and is looking forward to moving forward with them in the very near future.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group has total available banking facilities of approximately HK$830 million of which approximately HK$816 million remained unutilised. In addition, the Group had bank and cash balances of approximately HK$131 million on the same date.

On 28 August 2002 the Company, through its wholly-owned subsidiary SIIS Treasury Limited, issued HK$156.4 million 5% Guaranteed Convertible Notes due 2005. As at 31 December 2002, the Group's total outstanding borrowings (excluding the above mentioned Convertible Notes) amounted to HK$117,611,000. The total borrowings will be due, as to approximately HK$49 million repayable within one year and the remaining of approximately HK$69 million repayable between two to five years. The Group's borrowings denominated in Japanese yen and in Renminbi were equivalent to HK$108,471,000 and HK$6,604,000 respectively. The borrowings which are denominated in Japanese yen were borrowed from Group companies in Japan (note 29, 30(b) & 30(c)), the Company is not hedging its foreign exchange fluctuation risk related to borrowings from these Group companies. Owing to this foreign exchange fluctuation, the Company recorded a HK$12.5 million exchange loss for the eighteen months ended 31 December 2002.

As at 31 December 2002, the gearing ratio of the Group was 173% (30 June 2001:48.7%) calculated by dividing the total borrowings of HK$117,611,000 (30 June 2001:HK$269,188,000) by the shareholders' fund of HK$68,003,000 (30 June 2001:HK$553,103,000).

CHARGES ON GROUP ASSETS

As at 31 December 2002, the Group's banking facilities were secured by properties of the Group with net book value of HK$17,186,000 (30 June 2001:HK$74,698,000). The Group's banking facilities secured by bank deposits of HK$5 million were not yet utilised as at 31 December 2002.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2002, the total number of employees of the Group was about 900. The employees are offered discretionary bonuses based on merits and the performance. Employee benefits amounted to approximately HK$110.8 million for the current period (12-months ended 2001:HK$53 million). The Group also encourages and subsidises employees to enrol in external training courses and seminars organised by professional bodies. Employees of the Group are eligible to be granted share options under the Company's share option scheme at the discretion of the Board.

By Order of the Board

WONG SIN JUST
Chief Executive Officer

HONG KONG, 16 April 2003