

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the period from 1 July 2001 to 31 December 2002.

CHANGE OF FINANCIAL YEAR END

The Company changed its financial year end from 30 June to 31 December commencing from the year of 2002. The new financial year end was adopted to coincide with the year ends of the Company's various PRC subsidiaries which have a common year end of 31 December. The accounts have been prepared for the eighteen months ended 31 December 2002. In consequence, the comparative figures for the consolidated profit and loss account, consolidated cash flow statement, consolidated statement of changes in equity and the related notes to the accounts are not directly comparable.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding and the activities of the principal subsidiaries and associated companies are shown in notes 39 and 15 to the accounts respectively.

An analysis of the Group's turnover and segmental information are set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the period are set out in the consolidated profit and loss account on page 47.

RESERVES

Movements in the reserves of the Group and the Company during the period are set out in note 32 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets, including investment properties, of the Group and the Company are set out in note 12 to the accounts.

A schedule of principal properties held for investment purposes is set out on pages 109 to 110.

LONG TERM LIABILITIES

Particulars of the Group's and the Company's long term liabilities at the balance sheet date are set out in note 30 to the accounts.

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SHARE CAPITAL

Details of the movements in share capital and the share option scheme of the Company are shown in note 31 to the accounts.

CONVERTIBLE NOTES

Details of the issue of convertible notes by a subsidiary are set out in note 33 to the accounts.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 39 to the accounts.

DONATIONS

During the period, the Group made charitable donations of HK\$197,000 (12-months ended 30 June 2001: HK\$250,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is shown on pages 107 to 108.

DIRECTORS

The directors during the period and up to the date of this report were:

Executive directors :

Yoshitaka KITAO

Hiroyuki NAKANISHI (resigned on 15 November 2002)

YU Kam Kee, Lawrence

WONG Sin Just

Hideaki SHIMANE (appointed on 15 November 2002)

Katsuya KAWASHIMA

WONG Kean Li (appointed on 19 September 2002)

CHOO Chee Kong (resigned on 19 September 2002)

YU Kam Yuen, Lincoln

(Alternate director to

YU Kam Kee, Lawrence)

REPORT OF THE DIRECTORS

DIRECTORS (continued)*Non-executive directors :*

CHANG Ming Jang	(resigned on 14 May 2002)
LI Shui	(redesignated from independent non-executive director to non-executive director on 28 March 2002 and subsequently resigned on 16 April 2003)
Akira KAJIKAWA	(redesignated from executive director to non-executive director on 19 September 2002 and subsequently resigned on 16 April 2003)
CHAN Kok Chung, Johnny	(appointed as independent non-executive director on 20 September 2001, subsequently acted as non-executive director on 21 November 2001 and finally resigned on 23 January 2002)

Independent non-executive directors:

YIP Hak Yung, Peter	(resigned on 20 September 2001)
KANG Dian	(appointed on 23 January 2002 and resigned on 16 April 2003)
LO Wing Yan, William	(appointed on 18 April 2002)

In accordance with Article 104 of the Company's Articles of Association, Mr Yu Kam Kee, Lawrence retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Article 110 of the Company's Articles of Association, all new directors who were appointed during the period also retire and, being eligible, offer themselves for re-election.

The independent non-executive directors of the Company are subject to the general provisions in respect of the retirement and rotation of directors in the Company's Articles of Association.

Upon the resignation of Mr Kang Dian as an independent non-executive director on 16 April 2003, there is one independent non-executive director remains in the board of the Company. Therefore, the Company fails to comply with the requirement under rule 3.10 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") which requires every board of directors of a listed company to include at least two independent non-executive directors. In this respect, the Company has applied and the Stock Exchange has granted to the Company a waiver from strict compliance with the Listing Rules for a period until 15 May 2003. Meanwhile, the Company is looking for a suitable person to be appointed as an independent non-executive director as soon as possible.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 20 to 22.

DIRECTORS' EMOLUMENTS

Details of directors' emoluments in respect of the period are shown in note 7(a) to the accounts.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SERVICE CONTRACT

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31 December 2002, the interests of the directors in the shares and options of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register kept under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

(A) Interests in the Company

(1) Shares

Name of director	Number of ordinary shares of HK\$0.10 each		
	Personal interest	Corporate interest	Total
Yu Kam Kee, Lawrence	162,918,026	4,882,965*	167,800,991
Yu Kam Yuen, Lincoln	12,083,885	—	12,083,885
Wong Sin Just	3,002,000	—	3,002,000
Li Shui (ex-director)	3,500,000	—	3,500,000

* Mr Yu Kam Kee, Lawrence has a shareholding of 60% in Henway Enterprises Limited, the beneficial owner of 4,882,965 shares of the Company.

(2) Share options

Details of the share options granted to certain directors by the Company during the period and outstanding as at 31 December 2002 are set out under "Options Granted Under The Share Option Schemes" below.

In addition, the following options were granted to certain directors by a party other than the Company:

Note	Name of director	Exercisable period	Exercise price per share HK\$	Number of share options				At 31 December 2002
				At 1 July 2001	Granted during the period	Cancelled during the period	Assigned during the period	
(a)	Wong Sin Just	06-04-2001 to 05-04-2011	0.592	56,550,000	—	(56,550,000)	—	—
		16-08-2001 to 15-08-2011	0.480	—	94,250,000	—	(37,700,000)	56,550,000
(b)	Hideaki Shimane	17-08-2001 to 16-08-2011	0.480	—	37,700,000	—	—	37,700,000

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

Notes:

- (a) The options were granted by Softbank Investment (International) Holdings Limited ("SBIIH") to Asset Horizons Limited ("AHL"), a company wholly-owned by Mr Wong Sin Just, an executive director and chief executive officer of the Company. The options entitle AHL to purchase existing issued ordinary shares of the Company beneficially held by SBIIH. The rights in respect of 37,700,000 shares held by AHL were assigned to Charter Time Investments Limited ("CTI") during the period (see note (b) below).
- (b) The options were assigned by AHL to CTI, a company wholly-owned by Mr Hideaki Shimane to purchase from AHL the interests in 37,700,000 existing ordinary shares of the Company.

(B) Interests in associated corporations

(1) Shares

- (i) SOFTBANK CORP.

Name of director	Number of ordinary shares
Yoshitaka Kitao	283,080
Katsuya Kawashima	23,585

- (ii) Softbank Investment Corporation

Name of director	Number of ordinary shares
Yoshitaka Kitao	6,539.92
Katsuya Kawashima	1,949.00
Akira Kajikawa (ex-director)	480.98

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

(2) Share options

(i) SOFTBANK CORP.

Name of director	Exercisable period	Exercise price per share JPY	Number of share options granted and not yet exercised
Yoshitaka Kitao	07-07-2000 to 07-07-2003	6,454.10	97,612.37
	08-02-2002 to 06-02-2004	28,607.00	157.30
Katsuya Kawashima	07-07-2000 to 07-07-2003	6,454.10	4,803.00
	08-02-2002 to 06-02-2004	28,607.00	157.30

(ii) Softbank Investment Corporation

Name of director	Exercisable period	Exercise price per share JPY	Number of share options granted and not yet exercised
Yoshitaka Kitao	01-04-2003 to 31-03-2008	18,750.10	2,279.98
	27-02-2002 to 18-02-2004	191,000.00	1,570.00
Katsuya Kawashima	01-04-2003 to 31-03-2008	18,750.10	599.99
Akira Kajikawa (ex-director)	01-04-2003 to 31-03-2008	18,750.10	479.99

(iii) Cognotec Japan K.K.

Name of director	Exercisable period	Exercise price per share JPY	Number of share options granted and not yet exercised
Yoshitaka Kitao	01-06-2000 to 07-05-2005	60,000	300

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

(iv) Softbank Frontier Securities Co, Ltd

Name of director	Exercisable period	Exercise price per share JPY	Number of share options granted and not yet exercised
Yoshitaka Kitao	Four years from the date of IPO	50,000	100
	Four years from the date of IPO	350,000	150
Katsuya Kawashima	01-06-2000 to 22-05-2006	50,000	50
	01-04-2001 to 29-03-2007	350,000	50

(v) E*Advisor Co, Ltd

Name of director	Exercisable period	Exercise price per share JPY	Number of share options granted and not yet exercised
Yoshitaka Kitao	01-11-2000 to 05-10-2007	50,000	120

(vi) Finance All Corporation

Name of director	Exercisable period	Exercise price per share JPY	Number of share options granted and not yet exercised
Yoshitaka Kitao	01-04-2002 to 28-03-2009	188,500	400
	25-09-2004 to 24-09-2012	188,500	150

Save as disclosed above none of the directors or chief executives of the Company (including their spouses or children under the age of 18) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

Other than as disclosed above, at no time during the period was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEMES

The Company has adopted share option schemes under which the board of directors may, at its discretion, offer to any participant an option to subscribe for shares in the Company in accordance with the terms and conditions of the respective scheme. A summary of such schemes is as follows:

(A) Share option scheme adopted on 25 October 2000 (the "Old Scheme")

(1) Purpose

The purpose of the Old Scheme is to provide incentive to the participants.

(2) Participants

The participants include any full time and part time employee or executive director (excluding non-executive director) of the Company, any of its subsidiaries or any associated company of the Company.

(3) Maximum number of shares available for subscription

The maximum number of shares in respect of which options may be granted is, when aggregated with any shares subject to any other scheme of the Company, limited to 10% of the issued share capital of the Company from time to time, excluding any shares issued upon the exercise of options granted pursuant to the Old Scheme. However, no further options will be granted under the Old Scheme upon its termination on 30 October 2001 (see paragraph (7) below).

(4) Maximum entitlement of each participant

The maximum entitlement of any one participant is 25% of the aggregate of all the shares subject to the Old Scheme.

(5) Maximum period for exercising an option

An option may be exercised in accordance with the terms of the Old Scheme at any time during a period to be notified by the board to each grantee, such period of time not exceeding 10 years from the date of grant of the option.

SHARE OPTION SCHEMES (continued)**(6) Basis of determining the exercise price**

The exercise price for shares under the Old Scheme shall be determined by the board, but may not be less than the higher of:

- (i) the nominal value of the shares; or
- (ii) 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option.

(7) Remaining life of the Old Scheme

The Old Scheme was originally scheduled to be valid for a period of 10 years commencing on the date of adoption. In 2001, the Listing Rules were revised concerning the requirements for share option schemes operated by listed companies. In this respect, the operation of the Old Scheme was terminated upon the adoption of the New Scheme (as defined below) on 30 October 2001. Thereafter, no further options will be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme. Such outstanding options may be exercised up to a longest period not later than 16 August 2011.

(B) The 2001 share option scheme adopted on 30 October 2001 (the “New Scheme”)**(1) Purposes**

The purposes of the New Scheme are, inter alia, to attract and retain best available personnel and to provide additional incentive to the participants.

(2) Participants

The participants include any full time and part time employee, director, consultant or advisor of the Company, any of its subsidiaries or any associated company of the Company.

(3) Maximum number of shares available for subscription

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

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SHARE OPTION SCHEMES (continued)

(4) Maximum entitlement of each participant

Unless approved by the shareholders of the Company at a general meeting, the total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) in any 12 months period shall not exceed 1% of the issued share capital of the Company.

(5) Maximum period for exercising an option

An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be notified by the board to each grantee, such period of time not exceeding 10 years from the date of grant of the option.

(6) Basis of determining the exercise price

The exercise price per share shall be determined by the board and shall be at least the higher of:

- (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered, which must be a business day;
- (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date as mentioned in (i) above; and
- (iii) the nominal value of the shares.

(7) Remaining life of the New Scheme

The New Scheme shall remain in force for a period of 10 years commencing on 30 October 2001 up to 29 October 2011.

REPORT OF THE DIRECTORS

OPTIONS GRANTED UNDER THE SHARE OPTION SCHEMES

Details of the share options granted under the Old Scheme and the New Scheme during the period are listed below:

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares options					At 31 December 2002
				At 1 July 2001	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
Directors									
Yoshitaka Kitao	01-11-2000	01-11-2000 to 31-10-2010	0.48	27,960,000	—	—	—	—	27,960,000
	17-08-2001	17-08-2001 to 16-08-2011	0.39	—	10,000,000 ²	—	—	—	10,000,000
Hiroyuki Nakanishi (ex-director)	01-11-2000	01-11-2000 to 31-10-2010	0.48	20,000,000	—	—	(20,000,000)	—	—
	17-08-2001	17-08-2001 to 16-08-2011	0.39	—	5,000,000 ²	—	(5,000,000)	—	—
	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	24,402,000 ³	—	—	(24,402,000)	—
Yu Kam Kee, Lawrence	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	24,402,000 ³	—	—	—	24,402,000
Wong Sin Just	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	24,402,000 ³	—	—	—	24,402,000
Wong Kean Li	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	6,000,000 ³	—	—	—	6,000,000
Hideaki Shimane	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	5,000,000 ³	—	—	—	5,000,000
Akira Kajikawa (ex-director)	01-11-2000	01-11-2000 to 31-10-2010	0.48	15,000,000	—	—	(15,000,000)	—	—
	17-08-2001	17-08-2001 to 16-08-2011	0.39	—	5,000,000 ²	—	(5,000,000)	—	—
	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	24,402,000 ³	—	—	—	24,402,000

REPORT OF THE DIRECTORS

OPTIONS GRANTED UNDER THE SHARE OPTION SCHEMES (continued)

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares options					At 31 December 2002
				At 1 July 2001	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
Katsuya Kawashima	01-11-2000	01-11-2000 to 31-10-2010	0.48	15,000,000	—	—	(15,000,000)	—	—
	17-08-2001	17-08-2001 to 16-08-2011	0.39	—	2,500,000 ²	—	(2,500,000)	—	—
	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	17,500,000 ³	—	—	—	17,500,000
Chang Ming Jang (ex-director)	01-11-2000	01-11-2000 to 14-08-2001 ¹	0.48	15,000,000	—	(15,000,000) ¹	—	—	—
Choo Chee Kong (ex-director)	17-08-2001	17-08-2001 to 16-08-2011	—	—	2,500,000 ²	—	(2,500,000)	—	—
	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	5,000,000 ³	—	—	(5,000,000)	—
Li Shui (ex-director)	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	2,440,000 ³	—	—	—	2,440,000
Kang Dian (ex-director)	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	2,440,000 ³	—	—	—	2,440,000
Employees	01-11-2000	01-11-2000 to 31-10-2010	0.48	3,900,000	—	—	(3,400,000)	(500,000)	—
	17-08-2001	17-08-2001 to 16-08-2011	0.39	—	14,400,000 ²	—	(13,400,000)	(1,000,000)	—
	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	65,000,000 ³	—	—	(22,500,000)	42,500,000
Consultants	21-02-2002	21-02-2002 to 20-02-2012	0.28	—	22,000,000 ³	—	—	—	22,000,000

REPORT OF THE DIRECTORS

OPTIONS GRANTED UNDER THE SHARE OPTION SCHEMES (continued)

Notes:

- (1) The exercise period in respect of the options held by Mr Chang Ming Jang was shortened from 31 October 2010 to 14 August 2001 as a result of the cessation of Mr Chang as an executive director of the Company on 15 May 2001. These options were exercised on 14 August 2001. At the date immediately before the options were exercised, the closing price per share was HK\$0.465.
- (2) At the date immediately before the options were granted on 17 August 2001, the closing price per share was HK\$0.50.
- (3) At the date immediately before the options were granted on 21 February 2002, the closing price per share was HK\$0.275.
- (4) Options granted to directors and consultants are immediately vested on the date of grant. Options granted to employees are vested as follows:

On 1st anniversary of the date of grant *	25% vested
On 2nd anniversary of the date of grant *	further 25% vested
On 3rd anniversary of the date of grant *	remaining 50% vested

* or on the 1st, 2nd and 3rd anniversary of an earlier date in which the grantee became an employee of the Group (as the case may be).

- (5) In assessing the fair value of the share options granted during the eighteen month period ended 31 December 2002, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company, if any.

In assessing the fair value of the share options granted during the period to all directors, employees and consultants, the variables of the Black-Scholes Model and its estimated values are listed as follows:

Grantee	Grant date	Expected life	Risk-free rate	Expected volatility	Expected dividend yield	Estimated fair value per option HK\$
Directors	17 August 2001	5 years	5.01%	100.28%	0%	0.40
	21 February 2002	5 years	4.90%	75.94%	0%	0.18
Employees	17 August 2001	5 years	5.01%	100.28%	0%	0.40
	21 February 2002	5 years	4.90%	75.94%	0%	0.18
Consultants	21 February 2002	5 years	4.90%	75.94%	0%	0.18

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OPTIONS GRANTED UNDER THE SHARE OPTION SCHEMES (continued)

- (a) The expected life is measured from the date of grant (the "Measurement Date").
- (b) The risk-free rate applied to the Black-Scholes Model represents the yield of the Hong Kong Exchange Fund Notes at the Measurement Date corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility used in the calculation represents the standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date.
- (d) Based on historic pattern, it is assumed that no dividend would be paid out during the expected life of the options.

Using the Black-Scholes Model in assessing the fair value of share options granted during the period, the options would have an aggregate estimated fair value of approximately HK\$55,897,840, represented as follows:

Grantee	Date of grant	Number of share options granted during the period	Estimated fair value of options granted during the period HK\$	Date of grant	Number of share options granted during the period	Estimated fair value of options granted during the period HK\$	Aggregate estimated fair value of options granted during the period HK\$
Directors							
Yoshitaka Kitao	17 August 2001	10,000,000	4,000,000	—	—	—	4,000,000
Hiroyuki Nakanishi (ex-director)	17 August 2001	5,000,000	2,000,000	21 February 2002	24,402,000	4,392,360	6,392,360
Yu Kam Kee, Lawrence	—	—	—	21 February 2002	24,402,000	4,392,360	4,392,360
Wong Sin Just	—	—	—	21 February 2002	24,402,000	4,392,360	4,392,360
Wong Kean Li	—	—	—	21 February 2002	6,000,000	1,080,000	1,080,000
Hideaki Shimane	—	—	—	21 February 2002	5,000,000	900,000	900,000
Akira Kajikawa (ex-director)	17 August 2001	5,000,000	2,000,000	21 February 2002	24,402,000	4,392,360	6,392,360
Katsuya Kawashima	17 August 2001	2,500,000	1,000,000	21 February 2002	17,500,000	3,150,000	4,150,000
Choo Chee Kong (ex-director)	17 August 2001	2,500,000	1,000,000	21 February 2002	5,000,000	900,000	1,900,000
Li Shui (ex-director)	—	—	—	21 February 2002	2,440,000	439,200	439,200
Kang Dian (ex-director)	—	—	—	21 February 2002	2,440,000	439,200	439,200
						Sub-total	34,477,840
Employees	17 August 2001	14,400,000	5,760,000	21 February 2002	65,000,000	11,700,000	17,460,000
Consultants	—	—	—	21 February 2002	22,000,000	3,960,000	3,960,000
						Total	55,897,840

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OPTIONS GRANTED UNDER THE SHARE OPTION SCHEMES (continued)

Included in the aggregate estimated fair value of share options granted during the period of approximately HK\$55,897,840 are 29,400,000 share options granted on 17 August 2001 with an estimated fair value of HK\$11,760,000, that either lapsed or were cancelled during the same period.

In assessing the aggregate estimated fair value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the fair value of options granted during the period. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the fair value of share options granted during the period. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, 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	%
Softbank Investment (International) Holdings Limited * ("SBIH")	909,903,061	37.29
Softbank Finance Corporation * ("SBF")	260,000,000	10.65

* SBIH is a direct wholly-owned subsidiary of Softbank Investment Corporation ("SBI"). SBF owns 65.11% 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 period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

REPORT OF THE DIRECTORS

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 period.

MAJOR CUSTOMERS AND SUPPLIERS

During the period, 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.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

During the period, the Group entered into certain transactions which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14 of the Listing Rules.

(A) Connected transactions entered into during the period

Connected parties refer to SBI E2-Capital Limited ("SBI E2-Capital") and its subsidiaries (collectively the "SBI E2-Capital Group"), E2-Capital (Holdings) Limited ("E2-Capital") and its subsidiaries, Softbank China Venture Investments Limited ("SBCVI"), Mr Li Shui, Lai Fai International Holdings Limited ("Lai Fai") and Fung Choi Properties Limited ("Fung Choi"). SBI E2-Capital is a 51% non-wholly-owned subsidiary of the Company. E2-Capital, which indirectly owns 49% equity interest in SBI E2-Capital, hence a substantial shareholder of the Company's subsidiary. In addition, Mr Wong Sin Just, an executive director of the Company, is a substantial shareholder of E2-Capital. SBCVI is a wholly-owned subsidiary of Softbank Investment Corporation, the sole shareholder of Softbank Investment (International) Holdings Limited, a substantial shareholder of the Company holding 37.29% shareholding in the Company. Mr Li Shui, an ex-director of the Company (resigned on 16 April 2003), is also a substantial shareholder of Lai Fai. Fung Choi is a company indirectly owned as to 60% by Mr Yu Kam Kee, Lawrence, an executive director of the Company.

- (1) On 11 July 2001, the Company entered into a management agreement with Smart Universe Group Limited (formerly Ebizal Group Limited), a subsidiary of E2-Capital, whereby the Company allowed Smart Universe Group Limited to occupy certain floor area of the premises at Man Yee Building and other related facilities for an initial term of one year commencing from 1 April 2001. The agreement was subsequently terminated in January 2002. For more details, please see note (a) set out in "Related Party Transactions" under note 37 to the accounts.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (continued)

- (2) On 17 July 2001, SBI E2-Capital entered into a back office support agreement (the "BOS Agreement") and an office space sharing agreement (the "OSS Agreement") with E2-Capital.

Under the BOS Agreement, E2-Capital provided company secretarial and compliance services, financial and treasury management, human resources and administrative services, corporate communications and information technology services to SBI E2-Capital Group for an initial term of one year commencing from 1 July 2001. For more details, please see note (d) set out in "Related Party Transactions" under note 37 to the accounts and paragraph (B) "Waiver applications" set out below.

Under the OSS Agreement, E2-Capital allowed SBI E2-Capital Group to occupy certain floor area of the premises at Henley Building for an initial term of one year commencing from 1 July 2001. For more details, please see note (e) set out in "Related Party Transactions" under note 37 to the accounts and paragraph (B) "Waiver applications" set out below.

Both the BOS Agreement and the OSS Agreement were subsequently terminated on 30 April 2002.

- (3) On 6 December 2001, the Company provided to the Monetary Authority of Singapore ("MAS") a guarantee (the "SIIS Guarantee"), as required under the MAS dealer's licence, pursuant to which the Company undertakes to maintain SBI E2-Capital Pte Ltd in a sound position and pay and settle all obligations and liabilities of SBI E2-Capital Pte Ltd arising during the existence of the guarantee. SBI E2-Capital Pte Ltd is an indirect non-wholly-owned subsidiary of the Company, being 56% owned by SBI E2-Capital by the time of the provision of the SIIS Guarantee.

The Company and E2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of SBI E2-Capital Pte Ltd should be determined by reference to their respective shareholdings in SBI E2-Capital. Accordingly, the Company has indemnified E2-Capital for 51% of any claim under the guarantee given to the MAS by E2-Capital and E2-Capital has indemnified the Company for 49% of any claim under the SIIS Guarantee. The transaction is also mentioned in note (j) set out in "Related Party Transactions" under note 37 to the accounts.

- (4) On 18 December 2001, the Company entered into a sale and purchase agreement with E2-Capital in relation to the acquisition by the Company of E2-Capital's 100% equity interest in ebizal (Holdings) Limited (formerly ebizal Investments Limited), a provider of consulting services, marketing services and technology solutions. For more details, please see note (h) set out in "Related Party Transactions" under note 37 to the accounts.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (continued)

- (5) On 27 March 2002, the Company entered into a sale and purchase agreement with Mr Li Shui in relation to the acquisition of 13.7% equity interest in Lai Fai International (BVI) Limited (formerly Infogold Assets Limited) at a consideration of JPY150,365,857 (equivalent to approximately HK\$8.8 million). Upon completion of the agreement, SBI E2-Capital (HK) Limited, a non-wholly-owned subsidiary of Company, received financial advisory fee from Mr Li Shui. During the financial period, SBI E2-Capital Group also received advisory fee from Lai Fai for advisory services provided. For more details, please see notes (c) and (i) set out in "Related Party Transactions" under note 37 to the accounts.
- (6) On 29 August 2002, the Company entered into a tenancy agreement with Fung Choi whereby the Company agreed to lease from Fung Choi the premises as its headquarter office for a term of three years commencing from 1 January 2003 to 31 December 2005 (both dates inclusive) at a monthly rental of HK\$156,255. The transactions is also mentioned in note (o) set out in "Related Party Transactions" under note 37 to the accounts.
- (7) On 11 September 2002, (i) a share subscription agreement was entered into between SBI E2-Capital Holdings Pte Ltd, SBI E2-Capital Asia Limited, SBI E2-Capital China Holdings Limited and SBI E2-Capital Securities Pte Ltd whereby SBI E2-Capital Securities Pte Ltd agreed to allot and issue an aggregate of 4,999,998 new shares of S\$1.00 each to the other parties of the agreement for a total consideration of approximately S\$5 million (approximately HK\$22 million); and (ii) a share purchase agreement was entered into between SBI E2-Capital Securities Limited and SBI E2-Capital Securities Pte Ltd whereby SBI E2-Capital Securities Pte Ltd agreed to purchase 1,000,000 shares (representing 10% shareholding) of SBI E2-Capital Brokerage Limited for a consideration of S\$0.5 million (approximately HK\$2.2 million). As at the date of this report, both agreements are not yet completed.

By the time of signing the agreements, SBI E2-Capital Securities Pte Ltd is an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Holdings Pte Ltd, which owns 100% of the issued share capital of SBI E2-Capital Securities Pte Ltd and a non-wholly-owned subsidiary of SBI E2-Capital Asia Limited, is an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Asia Limited, a 56% shareholder of SBI E2-Capital Holdings Pte Ltd and the sole shareholder of SBI E2-Capital China Holdings Limited, is an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital China Holdings Limited, a wholly-owned subsidiary of SBI E2-Capital Asia Limited, is therefore an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Securities Limited, an indirect wholly-owned subsidiary of SBI E2-Capital Asia Limited, is in turn an indirect non-wholly-owned subsidiary of the Company. SBI E2-Capital Brokerage Limited, a wholly-owned subsidiary of SBI E2-Capital Securities Limited, is therefore an indirect non-wholly-owned subsidiary of the Company. As Mr Choo Chee Kong, an ex-director of the Company (resigned on 19 September 2002), is also a substantial shareholder of SBI E2-Capital Securities Pte Ltd holding an indirect interest of 21.2% of its issued capital by the time of signing the agreements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (continued)

- (8) During the financial period, the Group entered into a number of continuing connected transactions as below:
- (i) the provision of corporate finance services by SBI E2-Capital Group to the Group;
 - (ii) the provision of securities placing, securities broking, custodian services and margin financing services by SBI E2-Capital Group to the Group;
 - (iii) the provision of consulting services, marketing services and technology solutions by the ebizal (Holdings) Limited (a wholly-owned subsidiary of the Company) and its subsidiaries to E2-Capital and its subsidiaries; and
 - (iv) the provision of management consultancy, technical consultancy, legal advisory, company secretarial, human resources and administrative services by the Company to SBCVI.

For more details, please see notes (a), (b) and (p) set out in "Related Party Transactions" under note 37 to the accounts and paragraph (B) "Waiver applications" set out below.

- (9) During the financial period, SBI E2-Capital paid interest expenses of HK\$149,000 on shareholder's loan due to E2-Capital. For more details, please see note (f) set out in "Related Party Transactions" under note 37 to the accounts.
- (10) During the financial period, Ebizal Marketing (Hong Kong) Limited, a wholly-owned subsidiary of the Company, received services income of HK\$171,000 from Lai Fai for the provision of marketing and public relation services. For more details, please see note (b) set out in "Related Party Transactions" under note 37 to the accounts.

Saved as disclosed above, no contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (continued)

(B) Waiver applications

Upon applications made by the Company, the Stock Exchange granted to the Company waivers from strict compliance with the disclosure requirements of Chapter 14 of the Listing Rules in respect of transactions (2) and (8) mentioned above (collectively the "Transactions") which constituted connected transactions as defined in the Listing Rules. The Transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that:

- (a) the Transactions were entered into by the Group in the ordinary and usual course of its business;
- (b) the Transactions were conducted either (i) on normal commercial terms; or (ii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the Transactions were entered into either (i) in accordance with the terms of the agreements (if any) governing such Transactions; or (ii) where there is no such agreements, on terms no less favourable than those available to (or from, as appropriate) independent third parties;
- (d) Transactions (8) were conducted in accordance with the pricing policies of the Group; and
- (e) during the financial period concerned, each of the aggregate fees of the Transactions has not exceed the higher of either HK\$10 million or 3% of the audited book value of the consolidated net tangible assets of the Group as at 31 December 2002.

In addition, the board of directors of the Company has received from the auditors two separate letters in respect of Transactions (2) and (8) respectively confirming that they have reviewed such Transactions and performed the procedures to:

- (a) ensure that the Transactions have been approved by the board of directors of the Company;
- (b) verify that Transactions (8) have been entered in accordance with the pricing policies as stated in the annual report of the Company;
- (c) verify that Transactions have been entered into in accordance with the terms of the relevant agreements governing such Transactions or, for Transactions (8), terms mutually agreed by relevant parties; and
- (d) ensure that each of the aggregate fees of the Transactions has not exceeded the higher of either HK\$10 million or 3% of the audited book value of the consolidated net tangible assets of the Group, as agreed with the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period ended 31 December 2002 and up to the date of this report, the directors (not including independent non-executive 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 (ex-director)	Softbank China Venture Investments Ltd.	Venture capital	Director
Chang Ming Jang (ex-director)	Softbank Asia Net-Trans Fund Ltd.	Venture Capital	Director

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 interests 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 to those of the Group.

REPORT OF THE DIRECTORS

CODE OF BEST PRACTICE

None of the 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 period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited accounts for the period.

AUDITORS

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

Subsequent to the merger of Price Waterhouse and Coopers & Lybrand, PricewaterhouseCoopers has been appointed as auditors on 28 September 1999.

On behalf of the Board

YU KAM KEE, LAWRENCE

Chairman of the Meeting

HONG KONG, 16 April 2003