



**SOFTBANK INVESTMENT
INTERNATIONAL (STRATEGIC) LIMITED**

Investment Holding
Investment Holding for Private Equity &
Investment Holding for Venture Capital
Investment Holding
Private Equity &
Venture Capital
Investment Management

Consultancy and
Technology Services
Consultancy and
Technology Services

interim report

2004 INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors :

YU Kam Kee, Lawrence M.B.E., J.P.
(*Chairman*)

WONG Sin Just (*Vice Chairman and
Chief Executive Officer*)

WONG Kean Li

WANG Ruiping

Non-executive Director:

YU Kam Yuen, Lincoln

Independent Non-executive Directors :

LO Wing Yan, William J.P.

CHAN Kai Yu, Rudy

REGISTERED OFFICE

3rd to 5th Floors
SBI Centre
56 Des Voeux Road Central
Hong Kong

Website : <http://www.softbank.com.hk>

COMPANY SECRETARY

WONG Kean Li

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited
Fortis Bank Asia HK
Mizuho Corporate Bank, Ltd

SOLICITORS

Simmons & Simmons

AUDITORS

PricewaterhouseCoopers

SHARE REGISTRARS

Tengis Limited
Ground Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road, Wanchai
Hong Kong

MANAGEMENT COMMENTARY

TO THE SHAREHOLDERS

On behalf of the board of directors (the “Board”) of Softbank Investment International (Strategic) Limited (the “Company”), I am pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004.

RESULTS AND DIVIDENDS

The Group attained a consolidated turnover of HK\$49,148,000 for the six months ended 30 June 2004, representing a decrease of approximately 35% over the corresponding six months ended 30 June 2003. The decrease was mainly due to the deconsolidation of SBI E2-Capital Limited, the holding company of a financial services group, as the Group’s equity interest in SBI E2-Capital Limited was reduced from 51% to 49% on 17 December 2003. Consolidated profit attributable to shareholders amounted to HK\$20,383,000, compared with a net loss of HK\$69,299,000 for the corresponding six months ended 30 June 2003. Basic earnings per share was HK 0.52 cents (six months ended 30 June 2003: loss per share of HK 2.84 cents).

The Board has resolved not to pay any interim dividend to shareholders (six months ended 30 June 2003: nil).

BUSINESS REVIEW & PROSPECTS

During the period under review, the Group continued to fine-tune and refocus its business model and direction to weather the unfavourable, albeit stragglng effects of the economic downturn.

Despite a turbulent and volatile 2003 financial year, with the Hong Kong markets remaining bearish amid structural weakening of the Region’s fiscal position fuelled internally by a significant budget deficit, a persistently high unemployment rate and a largely stagnant property market, and externally by persistent geopolitical problems in other parts of the world, as well as confirmed cases of Severe Acute Respiratory Syndrome (SARS) in the South China Region and an outbreak of Avian Flu in South East Asia, the latter half of the financial year and the first half of 2004 did see strong signs of recovery.

In the six months ended 30 June 2004, the Group took the opportunity to recoup and to readjust its objectives and strategies in a manner which best suits the reviving market environment. With the aim of fully focusing and capitalising on its strengths by fully transforming into an investment holding company, the Group made a series of acquisitions and disposals during the period.

Over the course of the six-month period, the Group has made a conscious decision to restructure and reposition itself strategically to ride the wave of economic recovery. The Group’s vigilance and opportunism now seems to be bearing fruit and we believe that, having weathered the storm, the Group has steered itself onto a path of recovery and impending profitability.

1. INVESTMENT HOLDING DIVISION

The Investment Holding Division contributed towards approximately 7% of the Group's turnover. It recorded a turnover of HK\$3,322,000 (six months ended 30 June 2003: HK\$1,531,000) and an operating profit of HK\$20,374,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: operating loss of HK\$62,992,000). The operating profit mainly stems from the disposal of subsidiaries, which posted a gain of HK\$22,799,000, and a write back of provision for impairment of non-trading securities of HK\$11,189,000.

The Group has continued to pursue its vision in developing strong and diversified investment and venture capital businesses in the Greater China and the Asia Pacific region, with a particular focus on Mainland China, through direct investments, the setting up of venture capital funds in Mainland China or involvement in funds managed by the Company, and participating proactively in the overall strategic planning and business development of the investee companies.

In December 2003, the Group entered into a subscription agreement for the subscription of redeemable convertible notes due 2007 in the principal amount of HK\$13,000,000 at an initial coupon rate of 5% per annum (subject to adjustment) issued by Zhongtian International Limited. The subscription was completed in January 2004.

In January 2004, the Group entered into a subscription agreement and shareholders agreement with independent third parties with regard to the shareholding of M DREAM CHINA (HOLDINGS) LTD ("M DREAM CHINA"). Following the completion of the agreements in May 2004, each of the Group and Softbank Asia Net Trans Fund (which is managed by the Group) now has a 17.5% interest in M DREAM CHINA. M DREAM CHINA is the 100% holding company of Hangzhou M Dream Co., Ltd., a company which specializes in the development, manufacturing and provision of services for mobile entertainment games software which are currently available over China Mobile and China Unicom's mobile platforms in China. The Group believe that the mobile games sector in China has tremendous growth opportunity and that M DREAM CHINA has the potential to be the dominant player within this field.

In February 2004, the Group also began the process of divesting its entire shareholding in Lai Fai International Holdings Limited. The sale was completed by 30 March 2004 and raised HK\$9,118,000, with a gain of HK\$246,000 recognised in the consolidated profit and loss account for the six months ended 30 June 2004.

In June 2004, the Group entered into an agreement with New Tech & Telecom Investment Limited ("NT&T") pursuant to which the Group disposed of its 60% equity interest in Software Gateway Limited ("SWG") at a consideration of approximately HK\$12,094,000 which was satisfied by NT&T issuing to the Group 24,187 of its new shares, representing approximately an 18% shareholding in NT&T. The disposal of 60% equity interest in SWG recognised a gain on disposal of approximately HK\$10,195,000 in the consolidated profit and loss account for the six months ended 30 June 2004. SWG is primarily a holding company which holds 99% equity interest in Electrum Information Technology Co., Ltd., a developer of IT solutions based in Guangzhou.

Also in June 2004, the Group entered into a share sale and purchase agreement whereby iMediaHouse Asia Limited (“IMHA”), a 50% held joint venture, agreed to acquire the entire 100% issued share capital of Ebizal Marketing (Holdings) Limited (“EMHL”) at a cash consideration of US\$3 million (equivalent to approximately HK\$23,400,000). A deemed gain on disposal of a subsidiary of approximately HK\$12,604,000, representing the portion of gain attributable to the interest of the other venturer, was recognised in the consolidated profit and loss account for the six months ended 30 June 2004. EMHL is primarily a holding company which holds 100% equity interest in Ebizal Marketing (Hong Kong) Limited (“EMHK”), a marketing, consultation and services agency. The Group believes the disposal of EMHL to IMHA will combine the two synergistic companies and create further value for the Group. Further details of IMHA are disclosed below under “Media, Consulting, Marketing and Technology Services Division”.

In February 2004, the Group successfully raised approximately HK\$46,500,000 (net of issuing expenses) from the issuance of convertible notes due 2006 for an aggregate principal amount of HK\$48,000,000.

Subsequent Events

In July 2004, the Group entered into an agreement with PhilWeb Corporation (“PhilWeb”) to dispose of a wholly-owned subsidiary of the Company which holds shares in PhilWeb at a consideration of Philippine Pesos 80 million (equivalent to approximately HK\$11,189,000). As the investment cost of PhilWeb was fully provided for in the prior period, the Group considered that it is appropriate to write back the impairment provision up to an amount of HK\$11,189,000 in the consolidated profit and loss account for the six months ended 30 June 2004. Also in July 2004, the Group entered into an agreement with PhilWeb Corporation to acquire approximately 7.6% interest in ISM Communications Corporation (“ISM”) at the same consideration. The shares of ISM and PhilWeb are listed on the Philippine Stock Exchange.

In August 2004, the Group entered into a subscription agreement with iMagic Infomedia Technology Limited (“iMITL”) whereby the Group agreed to subscribe for 39 shares, representing approximately 3% interest in the issued share capital of iMITL, at a consideration of HK\$3,000,000. iMITL’s products and solutions have been deployed in a number of Hong Kong’s major transport lines, shopping malls, schools, hospitals and government buildings and also possesses a solid and diverse international client base. The Group believes there are mutual synergistic benefits to be gained due to the bilateral integration of IMHA’s advertising-related operations and iMITL’s marketing and advertising-related operations and the sharing of information, technology and know-how.

2. FINANCIAL SERVICES DIVISION

The performance of the Financial Services Division reflects the performance of SBI E2-Capital Limited, an associated company of the Group the results of which have been equity accounted for by the Group. In the prior periods, the HK/China section was consolidated. Services included investment banking, securities and commodities brokerage and research.

HK/China

The Hong Kong/China section, SBI E2-Capital China Holdings Limited, made a net profit before tax of HK\$3,400,000 for the six months ended 30 June 2004, compared with a net profit before tax of HK\$400,000 for the same period in the preceding year. The momentum of improvement notably increased in the first quarter of 2004, which was largely due to the sharp increase in stock trading activity in the first quarter of 2004. Notwithstanding a significant increase in turnover and improvement in results, the section continues to exercise vigilance over its operating cost and risk management.

We are pleased that our clients have recognized our contribution and for the support that they have shown to us during the period. In addition to receiving the award of Best Local Broker in Hong Kong by Asiamoney and Top Hong Kong/China Local Brokerage House First Runner Up by The Asset Magazine in November 2003, we have also been awarded the Best Domestic Equity House by Asiamoney in May 2004.

Stock and futures broking

Gross commission received from our securities and futures broking business increased marginally from HK\$15,200,000 for the six months ended 30 June 2003 to HK\$15,300,000 for the six months ended 2004. However, stringent cost control measures helped increase net profit before tax by 27% to HK\$2,200,000 for the six months ended 30 June 2004 as compared with HK\$1,700,000 for the same period in 2003.

Investment banking

The corporate finance and advisory business showed improvement with a net profit before tax of HK\$1,900,000 for the six months ended 30 June 2004 as compared with a loss of HK\$200,000 for the six months ended 30 June 2003.

Margin financing

With the adoption of an effective credit policy, no significant provision was made for bad and doubtful debts of margin clients. The section will continue to exercise prudence and selectively extending facility to quality clients.

Research

The first half of 2004 was a relatively difficult period for stock picking since Hong Kong stock market began to consolidate from March 2004. Our research team has begun to relocate coverage resources to technology-related and domestic consumption stocks since the fourth quarter of 2003. This refocusing has paid off as Hong Kong retail stocks in particular have been under the spotlight due to the increased spending brought on by the influx of Mainland tourists. For the second half of 2004, we will add selective H share coverage to complement our existing small/mid cap universe.

Singapore

SBI E2-Capital Holdings Limited ("SBI Singapore"), held by the Group as non-trading securities, was successfully listed on the SESDAQ of the Singapore Exchange Securities Trading Limited on 21 January 2004. SBI Singapore has achieved a net profit of SGD4.3 million for the six months ended 30 June 2004, as compared with SGD1.5 million for the same period in 2003. The increase in profit for the current period is mainly attributable to an increase in IPO management fees and equity capital market related revenue.

Subsequent Event

In July 2004, SBI Singapore signed a settlement agreement with SBI E2-Capital Asia Limited ("SBI Asia"), a wholly-owned subsidiary of SBI E2-Capital Limited, whereby both parties would enter a conditional sale and purchase agreement pursuant to which SBI Asia would agree to sell to SBI Singapore and SBI Singapore would agree to acquire from SBI Asia its entire 49% shareholding interest in SBI E2-Capital Securities Pte Ltd for SGD4.9 million. In addition, the Group has decided to divest all its interests in SBI Singapore. The name of SBI Singapore was changed to Westcomb Financial Group Limited at its extraordinary general meeting held on 18 August 2004.

3. MEDIA, CONSULTING, MARKETING AND TECHNOLOGY SERVICES DIVISION

The Media, Consulting, Marketing and Technology Services Division accounted for approximately 17% of the Group's turnover. The Division's consolidated turnover was HK\$8,577,000 (six months ended 30 June 2003: HK\$11,908,000) and the consolidated operating loss was HK\$461,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: HK\$3,265,000).

The division comprises the education technology services operated by Sun-Tech International Group Limited, marketing services operated by EMHK, which was disposed to IMHA in June 2004, IT solution services provided by Electrum Information Technology Co., Ltd., which was disposed to NT&T in June 2004, wearable and mobile-computing technology operated by Xybernaut China Limited, and media business operated by IMHA.

In February 2004, the Group entered into a shareholders agreement with Xybernaut Corporation for the formation of a new venture company, Xybernaut China Limited ("XCN"), whereby the Group agreed to make a capital contribution of US\$2 million (equivalent to approximately HK\$15,600,000). The Group and Xybernaut Corporation own 40% and 60% of the shareholding in XCN, respectively. XCN will focus primarily in delivering wearable/mobile-computing technology to Mainland China and Hong Kong and has the exclusive rights to exploit over 600 patents, registered or pending worldwide, controlled by Xybernaut Corporation within the territories. The Group believes that there is a substantial market in the region that would require Xybernaut's solutions and products.

In March 2004, the Group entered into a share subscription agreement whereby the Group agreed to subscribe for a 50% interest in IMHA at a total consideration of US\$6 million (equivalent to approximately HK\$46,800,000). During the period under review, the Group had paid US\$4.5 million to IMHA, of which US\$3 million and US\$1.5 million were satisfied by cash and by the issuance of 99,152,542 ordinary shares of the Company at HK\$0.118 per share respectively. The balance of US\$1.5 million (equivalent to approximately HK\$11,700,000) shall be satisfied by the issuance of ordinary shares of the Company after IMHA achieves certain revenue targets. IMHA intends to hold media companies which will provide marketing and media technology and consulting services throughout the Asia Pacific region with a focus on the Greater China region. IMHA will become the media investment arm of the Company to seek out new and innovative media investment opportunities in the Asia region. IMHA signed a joint venture contract with Focus Media (China) Holding Co. Ltd. in February 2004 to establish the joint venture company, Focus Media Hong Kong Limited, which will have the exclusive rights to operate Focus Media's exclusive LCD/DVD advertisement-relay monitor systems ("Focus Media Business") in China and in Hong Kong, the first right of refusal to operate Focus Media Business in Singapore and Malaysia and the rights to invest up to 30% of any new Focus Media Business to be launched in Japan, providing multimedia entertainment and advertising services and solutions on its patented synchronized LCD/DVD monitors located at high-end commercial & business buildings, luxurious hotels and high-class entertainment venues.

EMHK, a marketing consultation and services agency, provides a range of holistic marketing services ranging from devising marketing strategies, consultation, to media advertising planning, as well as promotional marketing events. In June 2004, the Company's joint-venture media arm, IMHA acquired EMHK for a total consideration of HK\$23,400,000. EMHK will now become IMHA's launch pad into China to capture the booming advertising industry which has been growing at a double digit rate over the last decade.

Sun-Tech International Group Limited, the manufacturer and worldwide distributor of education technology products, is continuing its global marketing campaign. Sun-Tech's US service center was invited by Intel to demonstrate their product lines at various nationwide Intel Channel Conference events. In the second half of 2004, Sun-Tech's products will be presented in three leading technology exhibitions; namely GITEX Dubai (UAE), Worlddidac in Basel (Switzerland) and Educatec in Paris (France). New products that will be launched include the children's Internet access guardian, which aims to help parents tackle the children's Internet addiction problem, and which will also pave the way for Sun-Tech's expansion from the educational market into the lucrative home-user market.

4. GARMENT MANUFACTURING DIVISION

The garment manufacturing business accounted for approximately 67% of the Group's turnover. It recorded a turnover of HK\$32,972,000 (six months ended 30 June 2003: HK\$36,315,000) and an operating profit of HK\$923,000 (six months ended 30 June 2003: HK\$2,207,000) respectively for the six months ended 30 June 2004.

5. PROPERTY HOLDING DIVISION AND OTHERS

The Property Holding Division and others accounted for approximately 9% of the Group's turnover. The division's turnover amounted to HK\$4,277,000 (six months ended 30 June 2003: HK\$4,096,000) and an operating profit of HK\$2,896,000 (six months ended 30 June 2003: HK\$5,668,000) was recorded for the six months ended 30 June 2004. The operating profit was mainly due to the gain of HK\$420,000 on disposal of an investment property in April 2004 and the surplus of HK\$1,410,000 on revaluation of the investment properties.

PROSPECTS

Despite a turbulent and volatile 2003 financial year, the second half of 2003 and the first half of 2004 did see strong signs of recovery. During the connecting period, the Group took the opportunity to recoup and to readjust its objectives and strategies in a manner which best suits the reviving market environment. Recent figures have suggested that Hong Kong's economy is on the rebound — the economy has also been encouraged by closer ties to the Mainland, spurred on by the Closer Economic Partnership Arrangement and the Individual Visit Scheme which allows more Mainland tourists to visit, and thereby spend, in the Region. The stock market and property markets also staged a recovery; residential mortgages have grown strongly since the second half of last year and more importantly, cases of negative equity declined significantly. Hong Kong's first asset-backed bond issue which aims to trade off up to 12 years of future toll revenues from the government's network of tunnels and bridges and raised HK\$6 billion to help fund new capital works also received a warm reception.

The Group's vigilance and opportunism over the last few years now seems to be bearing fruit and we believe that, having weathered the storm, the Group has steered itself onto a path of recovery and impending profitability. Whereas the Group is principally engaged in investment holding and has traditionally been engaged in the areas of private equity and venture capital investment management, property holding, consultancy, marketing and technology services, as well as garment manufacturing and others, the Group has, during the period, established a media investment arm to capitalise on the tremendous growth we foresee in the media/online entertainment sectors.

Spearheading the Group's media investment arm will be IMHA and the Group firmly believes that there are mutual synergistic benefits to be gained through the integration of IMHA's advertising and marketing-related operations and other synergistic services provided by our new investee companies including iMITL, EMHL, M DREAM CHINA and XCN as well as the concurrent broadening of the scope of services offered by these companies to its clients. Having these investment opportunities, we look forward to moving forward with them in the very near future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group's bank and cash balances totalled HK\$40,086,000 (31 December 2003: HK\$37,387,000).

On 28 August 2002, the Company, through its wholly-owned subsidiary SIIS Treasury Limited, issued 5% Guaranteed Convertible Notes due 2005 (the "2005 Notes") with principal amounts of HK\$156,400,000. During the six months ended 30 June 2004, a HK\$8,300,000 principal amount of the 2005 Notes were converted into 69,166,666 ordinary shares of the Company.

On 2 February 2004 and 13 February 2004, the Company, through its wholly-owned subsidiary SIIS Treasury Limited, issued 5% Guaranteed Convertible Notes (collectively the "2006 Notes") with principal amounts of HK\$33,200,000 and HK\$14,800,000, which are due on 2 February 2006 and 13 February 2006 respectively. During the six months ended 30 June 2004, a HK\$30,700,000 principal amount of the 2006 Notes were converted into 307,000,000 ordinary shares of the Company.

As at 30 June 2004, the outstanding principal amounts of the 2005 Notes and the 2006 Notes were HK\$5,000,000 (31 December 2003: HK\$13,300,000) and HK\$17,300,000 (31 December 2003: N/A) respectively. Details of the convertible notes are set out in note 14 to the accounts.

As at 30 June 2004, the Group's total outstanding borrowings (excluding the above mentioned convertible notes) amounted to HK\$81,961,000 (31 December 2003: HK\$82,802,000). The total borrowings will be repayable, as to approximately HK\$6,604,000 within one year and the remaining of approximately HK\$75,357,000 between two to five years. Included in the total borrowings are amounts denominated in Japanese yen and Renminbi which were equivalent to HK\$75,357,000 and HK\$6,604,000 respectively. The borrowings denominated in Japanese yen were borrowed from former group companies in Japan against which the Company does not hedge the related foreign exchange fluctuation risk. Owing to this foreign exchange fluctuation, the Company recorded a HK\$841,000 exchange gain for the six months ended 30 June 2004 (six months ended 30 June 2003: HK\$1,180,000).

As at 30 June 2004, the shareholders' funds of the Group totalled HK\$232,312,000, and the gearing ratio of the Group was 35% (31 December 2003: 45%), calculated by dividing the total borrowings of HK\$81,961,000 (31 December 2003: HK\$82,802,000) by the shareholders' funds of HK\$232,312,000 (31 December 2003: HK\$184,040,000).

CHARGES ON GROUP ASSETS

As at 30 June 2004, the Group's banking facilities were secured by other properties of the Group with a net book value of HK\$11,815,000 (31 December 2003: HK\$12,112,000).

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 15 to the accounts.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2004, the total number of employees of the Group was about 770. The employees are offered discretionary bonuses based on merits and their performance. Employee benefits amounted to approximately HK\$14,972,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: HK\$23,600,000). The Group also encourages and subsidises employees to enrol in external training courses and seminars organised by professional bodies. Employees of the Group are also eligible to be granted share options under the Company's share option scheme at the discretion of the Board.

SHARE OPTION SCHEME

On 30 October 2001, at the annual general meeting, the Company adopted a share option scheme (the "Scheme") under which the Board may, at its discretion, invite any full time and part time employees, directors, consultants or advisors of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the Scheme were disclosed in the circular dated 28 September 2001.

Details of the movements in share options granted under the Scheme during the period were as follows:

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares options					At 30 June 2004
				At 1 January 2004	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
Directors									
Yu Kam Kee, Lawrence	21-02-2002	21-02-2002 to 20-02-2012	0.28	24,402,000	—	—	—	—	24,402,000
	03-11-2003	03-11-2003 to 02-11-2013	0.10	35,000,000	—	—	—	—	35,000,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	1,632,000 ¹	—	(1,632,000)	—	—
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	1,632,000 ³	—	—	—	1,632,000
Wong Sin Just	21-02-2002	21-02-2002 to 20-02-2012	0.28	24,402,000	—	—	—	—	24,402,000
	03-11-2003	03-11-2003 to 02-11-2013	0.10	35,000,000	—	—	—	—	35,000,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	1,632,000 ¹	—	(1,632,000)	—	—
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	1,632,000 ³	—	—	—	1,632,000
Wong Kean Li	21-02-2002	21-02-2002 to 20-02-2012	0.28	6,000,000	—	—	—	—	6,000,000
	03-11-2003	03-11-2003 to 02-11-2013	0.10	35,000,000	—	—	—	—	35,000,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	1,632,000 ¹	—	(1,632,000)	—	—
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	1,632,000 ³	—	—	—	1,632,000
Wang Ruiping	21-02-2002	21-02-2002 to 20-02-2012	0.28	15,000,000	—	—	—	—	15,000,000
	03-11-2003	03-11-2003 to 02-11-2013	0.10	35,000,000	—	—	—	—	35,000,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	1,632,000 ¹	—	(1,632,000)	—	—
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	1,632,000 ³	—	—	—	1,632,000
Yu Kam Yuen, Lincoln	03-11-2003	03-11-2003 to 02-11-2013	0.10	20,000,000	—	—	—	—	20,000,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	15,000,000 ¹	—	(15,000,000)	—	—
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	15,000,000 ³	—	—	—	15,000,000
Lo Wing Yan, William	03-11-2003	03-11-2003 to 02-11-2013	0.10	3,632,000	—	—	—	—	3,632,000
Chan Kai Yu, Rudy	03-11-2003	03-11-2003 to 02-11-2013	0.10	3,632,000	—	—	—	—	3,632,000

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares options					At 30 June 2004
				At 1 January 2004	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
Employees	21-02-2002	21-02-2002 to 20-02-2012	0.28	14,400,000	—	—	—	(600,000)	13,800,000
	03-11-2003	03-11-2003 to 02-11-2013	0.10	39,700,000	—	(2,948,000) ⁴	—	(376,000)	36,376,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	93,550,000 ¹	—	(91,550,000)	(1,000,000)	1,000,000
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	99,550,000 ³	—	—	—	99,550,000
Consultants	21-02-2002	21-02-2002 to 20-02-2012	0.28	4,000,000	—	—	—	—	4,000,000
	03-11-2003	03-11-2003 to 02-11-2013	0.10	37,000,000	—	(1,250,000) ⁵	—	(7,000,000)	28,750,000
	26-01-2004	26-01-2004 to 25-01-2014	0.12	—	185,000,000 ¹	—	(180,000,000)	—	5,000,000
	26-03-2004	26-03-2004 to 25-03-2014	0.12	—	25,000,000 ²	—	(25,000,000)	—	—
	24-05-2004	24-05-2004 to 23-05-2014	0.10	—	240,000,000 ³	—	—	—	240,000,000

Notes:

- (1) At the date immediately before these options were granted, the closing price per share was HK\$0.107.
- (2) At the date immediately before these options were granted, the closing price per share was HK\$0.123.
- (3) At the date immediately before these options were granted, the closing price per share was HK\$0.086.
- (4) The weighted average closing price of the shares immediately before the respective exercise date of the options was HK\$0.115.
- (5) The weighted average closing price of the shares immediately before the respective exercise date of the options was HK\$0.143.
- (6) Options granted to directors are immediately vested on the date of grant.
- (7) Options granted to employees are vested as follows:

Date of grant	Vesting date	No. of share options vested
21-02-2002	21-02-2003	3,600,000
	21-02-2004	3,600,000
	21-02-2005	7,200,000
03-11-2003	03-11-2003	9,925,000
	03-11-2004	9,925,000
	03-11-2005	19,850,000
26-01-2004	26-01-2004	23,387,500
	26-01-2005	23,387,500
	26-01-2006	46,775,000
24-05-2004	24-05-2004	24,887,500
	26-01-2005	24,137,500
	24-05-2005	750,000
	26-01-2006	48,275,000
	24-05-2006	1,500,000

- (8) Options granted to consultants are vested as follows :

Date of grant	Vesting date	No. of share options vested
21-02-2002	03-08-2002	2,000,000
	21-02-2003	500,000
	03-10-2003	1,500,000
03-11-2003	03-11-2003	9,250,000
	03-11-2004	9,250,000
	03-11-2005	18,500,000
26-01-2004	26-01-2004	185,000,000
26-03-2004	26-03-2004	6,250,000
	26-03-2005	6,250,000
	26-03-2006	12,500,000
24-05-2004	24-05-2004	210,000,000
	26-03-2005	10,000,000
	26-03-2006	20,000,000

- (9) In assessing the fair value of the share options granted during the period, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 rate (if any) of the Company's shares.

The variables of the Black-Scholes Model used in assessing the fair value of the share options granted during the period and the estimated fair 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	26-01- 2004	5 years	2.72%	112.41%	0%	0.0948
	24-05-2004	5 years	3.85%	109.51%	0%	0.0683
Employees	26-01-2004	5 years	2.72%	112.41%	0%	0.0948
	24-05-2004	5 years	3.85%	109.51%	0%	0.0683
Consultants	26-01-2004	5 years	2.72%	112.41%	0%	0.0948
	26-03-2004		2.53%	113.34%	0%	0.0951
	24-05-2004	5 years	3.85%	109.51%	0%	0.0683

- (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 is based on the standard deviation of the returns of the daily closing prices of the Company's shares 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\$55,485,531, calculated as follows:

Grantee	Date of grant	Number of share options granted during the period	Estimated fair value of share options granted during the period HK\$
Directors			
Yu Kam Kee, Lawrence	26-01-2004	1,632,000	154,717
	24-05-2004	1,632,000	111,458
Wong Sin Just	26-01-2004	1,632,000	154,717
	24-05-2004	1,632,000	111,458
Wong Kean Li	26-01-2004	1,632,000	154,717
	24-05-2004	1,632,000	111,458
Wang Ruiping	26-01-2004	1,632,000	154,717
	24-05-2004	1,632,000	111,458
Yu Kam Yuen, Lincoln	26-01-2004	15,000,000	1,422,029
	24-05-2004	15,000,000	1,024,429
Employees	26-01-2004	93,550,000	8,868,718
	24-05-2004	99,550,000	6,798,797
Consultants	26-01-2004	185,000,000	17,538,352
	26-03-2004	25,000,000	2,377,635
	24-05-2004	240,000,000	16,390,871
		Total	55,485,531

Included in the above share options granted during the period are 318,078,000 share options which were subsequently cancelled during the same period. The estimated fair value of these options on the relevant grant dates was HK\$30,161,988.

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 estimated using the Black-Scholes Model at the Measurement Date.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2004, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries has purchased or sold any shares of the Company.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 June 2004, the following directors of the Company were interested in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:-

(A) INTERESTS IN THE COMPANY

(1) Shares

Name of director	Number of ordinary shares of HK\$0.10 each			Percentage of issued shares
	Personal interest	Corporate interest	Total	
Yu Kam Kee, Lawrence	162,918,026	4,882,965*	167,800,991	4.08%
Yu Kam Yuen, Lincoln	12,083,885	—	12,083,885	0.29%
Wong Sin Just	3,002,000	—	3,002,000	0.07%
Wang Ruiping	1,000,000	—	1,000,000	0.02%

* 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 the directors by the Company and outstanding as at 30 June 2004 are set out under the section "Share Option Scheme" above.

(B) INTERESTS IN AN ASSOCIATED CORPORATION

As at 30 June 2004, Mr Wong Sin Just held 6 ordinary shares of HK\$1.00 each in the capital of SBI E2-Capital Limited (representing 2% of its issued shares), a company incorporated in the Cayman Islands in which the Company has a 49% indirect interest.

Save as disclosed above, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2004, the following person (other than a director or chief executive of the Company as disclosed above) had an interest in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO being 5% or more of the issued shares of the Company:

Name of substantial shareholder	Interest in shares	Interest in shares underlying equity derivatives (Note 1)	Percentage of issued shares
E2-Capital (Holdings) Limited (Note 2)	184,500,000	181,666,666	8.9%

Notes :

- (1) This refers to the interest in the underlying shares derived from the 5% guaranteed convertible notes issued by SIIS Treasury Limited, a wholly-owned subsidiary of the Company.
- (2) Mr Wong Sin Just, an executive director of the Company, is also an executive director of E2-Capital (Holdings) Limited.

Save as disclosed above, no person (other than a director or chief executive of the Company as disclosed above) had any interest or short position in any shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

On 25 August 2004, the Board had adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules.

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 controls and financial reporting matters including the review of the unaudited interim accounts for the six months ended 30 June 2004. At the request of the Audit Committee, the Group's external auditors have carried out a review of the unaudited interim accounts in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

By Order of the Board

Wong Sin Just

Vice Chairman & Chief Executive Officer

Hong Kong, 25 August 2004

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		(Unaudited) Six months ended 30 June	
	Note	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	49,148	75,351
COST OF SALES		(35,380)	(45,531)
GROSS PROFIT		13,768	29,820
OTHER REVENUES		661	550
DISTRIBUTION COSTS		(2)	(3)
ADMINISTRATIVE EXPENSES		(26,388)	(41,610)
OTHER OPERATING INCOME/(EXPENSES)		1,202	(24)
GAIN ON DISPOSAL OF A SUBSIDIARY		10,195	—
DEEMED GAIN ON DISPOSAL OF A SUBSIDIARY	3(a)	12,604	—
(LOSS)/GAIN ON DISPOSAL OF INVESTMENTS IN NON-TRADING SECURITIES		(144)	6,415
GOODWILL AMORTISATION		(102)	—
WRITE BACK OF PROVISION FOR/(PROVISION FOR) IMPAIRMENT OF NON-TRADING SECURITIES	7	11,189	(66,453)
SURPLUS ON REVALUATION OF INVESTMENT PROPERTIES		1,410	4,352
OPERATING PROFIT/(LOSS)		24,393	(66,953)
FINANCE COSTS		(1,920)	(5,285)
SHARE OF RESULTS OF ASSOCIATED COMPANIES		1,282	(389)
SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES		(2,863)	(159)
PROFIT/(LOSS) BEFORE TAXATION	3	20,892	(72,786)
TAXATION	4	(572)	(936)
PROFIT/(LOSS) AFTER TAXATION		20,320	(73,722)
MINORITY INTERESTS		63	4,423
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	13	20,383	(69,299)
		HK cents	HK cents
EARNINGS/(LOSS) PER SHARE			
Basic	6	0.52	(2.84)
Diluted	6	0.47	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2004

	Note	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
GOODWILL		3,943	4,045
FIXED ASSETS		104,013	112,327
INTERESTS IN ASSOCIATED COMPANIES		55,294	53,286
INTERESTS IN JOINTLY CONTROLLED ENTITIES		30,012	8,283
NON-TRADING SECURITIES	7	130,653	119,092
CURRENT ASSETS			
INVENTORIES		9,409	10,391
ACCOUNTS RECEIVABLE	8	15,378	16,114
SUNDRY DEBTORS, PREPAYMENTS AND DEPOSITS		13,689	12,954
AMOUNT DUE FROM A RELATED COMPANY	9	323	323
TAX RECOVERABLE		128	302
CASH AND BANK BALANCES		40,086	37,387
		79,013	77,471
CURRENT LIABILITIES			
ACCOUNTS PAYABLE	10	11,548	13,314
OTHER PAYABLES AND DEPOSITS RECEIVED		24,915	39,894
AMOUNT DUE TO A RELATED COMPANY	9	107	11,484
SECURED BANK LOANS		6,604	6,604
		43,174	71,296
NET CURRENT ASSETS		35,839	6,175
		359,754	303,208
FINANCED BY:			
SHARE CAPITAL	12	411,241	363,289
RESERVES	13	(178,929)	(179,249)
SHAREHOLDERS' FUNDS		232,312	184,040
MINORITY INTERESTS		29,785	29,670
5% GUARANTEED CONVERTIBLE NOTES	14	22,300	13,300
LONG TERM LIABILITIES	11	75,357	76,198
		359,754	303,208

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	(Unaudited)	
	Six months ended 30 June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash used in operating activities	(30,172)	(16,779)
Net cash used in investing activities	(15,539)	(12,381)
Net cash generated from/(used in) financing activities	48,410	(23,537)
Net increase/(decrease) in cash and cash equivalents	2,699	(52,697)
Cash and cash equivalents at 1 January	37,387	130,578
Cash and cash equivalents at 30 June	40,086	77,881
Analysis of cash and cash equivalents:		
Cash and bank balances	40,086	82,881
Less: Pledged bank deposits	—	(5,000)
	40,086	77,881

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		(Unaudited) Six months ended 30 June	
	Note	2004 HK\$'000	2003 HK\$'000
Total shareholders' funds at 1 January		<u>184,040</u>	68,003
Deficit on revaluation of non-trading securities	13	<u>(25,203)</u>	<u>(27,213)</u>
Net losses not recognised in the consolidated profit and loss account		(25,203)	(27,213)
Profit/(loss) attributable to shareholders	13	20,383	(69,299)
Investment revaluation reserve transferred to the consolidated profit and loss account upon impairment of non-trading securities	13	—	66,453
Investment revaluation reserve transferred to the consolidated profit and loss account upon disposal of non-trading securities	13	1,983	—
Issue of ordinary shares	12 & 13	<u>51,109</u>	—
		<u>48,272</u>	<u>(30,059)</u>
Total shareholders' funds at 30 June		<u>232,312</u>	<u>37,944</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. ACCOUNTING POLICIES

These unaudited interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim financial reporting", issued by the Hong Kong Society of Accountants.

These interim accounts should be read in conjunction with the 2003 Annual Report of the Company.

The accounting policies used in the preparation of these interim accounts are consistent with those used in the Company's annual accounts for the year ended 31 December 2003.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in investment holding, the provision of consulting, marketing and technology services, garment manufacturing, and property holding.

An analysis of turnover and segment results by business segments is as follows:

Primary reporting format-Business segments

For the six months ended 30 June 2004

	Investment holding HK\$'000	Financial services (note) HK\$'000	Media, consulting, marketing & technology services HK\$'000	Garment manufacturing HK\$'000	Property holding & others HK\$'000	Group total HK\$'000
Turnover						
Segment turnover	5,932	—	8,852	32,972	4,277	52,033
Inter-segment	(2,610)	—	(275)	—	—	(2,885)
Total	3,322	—	8,577	32,972	4,277	49,148
Segment results						
Segment total	(13,470)	—	(461)	923	2,896	(10,112)
Loss on disposal of non-trading securities	(144)	—	—	—	—	(144)
Write back of provision for impairment of non-trading securities	11,189	—	—	—	—	11,189
Gain on disposal of subsidiaries	22,799	—	—	—	—	22,799
Segment results	20,374	—	(461)	923	2,896	23,732
Unallocated income						661
Finance costs						(1,920)
Share of results of associated companies		2,944	(1,662)			1,282
Share of results of jointly controlled entities	(662)		(2,201)			(2,863)
Profit before taxation						20,892
Taxation						(572)
Minority interests						63
Profit attributable to shareholders						20,383

For the six months ended 30 June 2003

	Investment holding <i>HK\$'000</i>	Financial services (note) <i>HK\$'000</i>	Consulting, marketing & technology services <i>HK\$'000</i>	Garment manufacturing <i>HK\$'000</i>	Property holding & others <i>HK\$'000</i>	Group total <i>HK\$'000</i>
Turnover						
Segment turnover	2,755	22,381	12,139	36,315	4,096	77,686
Inter-segment	(1,739)	(880)	(231)	—	—	(2,850)
Total	1,016	21,501	11,908	36,315	4,096	74,836
Dividend income	515					515
						<u>75,351</u>
Segment results						
Segment total	(9,205)	(5,390)	(1,265)	2,207	5,668	(7,985)
Gain on disposal of non-trading securities	6,415	—	—	—	—	6,415
Provision for impairment of non-trading securities	(60,202)	(4,251)	(2,000)	—	—	(66,453)
Segment results	(62,992)	(9,641)	(3,265)	2,207	5,668	(68,023)
Dividend income	515					515
Unallocated income						550
Finance costs						(5,280)
Share of results of associated companies			(389)			(389)
Share of results of a jointly controlled entity	(159)					(159)
Loss before taxation						(72,786)
Taxation						(936)
Minority interests						4,423
Loss attributable to shareholders						<u>(69,299)</u>

Note: The Group's equity interest in SBI E2-Capital Limited (a former 51% owned subsidiary which holds a financial services group) has been reduced from 51% to 49% on 17 December 2003. As such, SBI E2-Capital Limited has become an associated company and its results have since been equity accounted for in the Group accounts. The comparative amounts of the financial services segment represent the results of SBI E2-Capital Limited which had been consolidated by the Group in the corresponding period.

3. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is stated after crediting and charging the following:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Crediting:		
Write back of provision for doubtful debts and loans receivable	104	525
Net exchange gain	898	1,119
Net realised and unrealised gain on trading investments	196	—
Gain on disposal of investment properties	420	1,242
Deemed gain on disposal of a subsidiary (note a)	12,604	—
	<u>12,604</u>	<u>—</u>
Charging:		
Depreciation of owned fixed assets	2,775	3,337
Cost of goods sold	31,772	36,283
Net realised and unrealised losses on trading investments	—	202
Provision for doubtful debts and loans receivable	450	4,096
Amortisation of goodwill in respect of		
- the acquisition of subsidiaries	102	—
- the acquisition of an associated company	248	248
- the subscription of shares in a jointly controlled entity	877	—
	<u>877</u>	<u>—</u>

Note:

- (a) In March 2004, the Group entered into a share subscription agreement whereby the Group agreed to subscribe for a 50% interest in iMediaHouse Asia Limited ("IMHA") at a total consideration of US\$6 million (equivalent to approximately HK\$46,800,000). Following the completion of the subscription, IMHA has become the media investment arm of the Group and the Group reported its investment in IMHA in its consolidated accounts as interests in a jointly controlled entity by using the equity method. Also in June 2004, the Group entered into a share sale and purchase agreement whereby IMHA agreed to acquire the entire 100% issued share capital of Ebizal Marketing (Holdings) Limited ("EMHL"), an indirect wholly-owned subsidiary of the Company, at a cash consideration of US\$3 million (equivalent to approximately HK\$23,400,000). The disposal to IMHA was completed on 30 June 2004 and a deemed gain on disposal of a subsidiary of approximately HK\$12,604,000 (representing the portion of gain attributable to the interest of the other venturer) was recognised by the Group in the consolidated profit and loss account for the six months ended 30 June 2004.

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2003: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	140	243
PRC taxation	169	621
	<u>309</u>	<u>864</u>
Share of taxation attributable to:		
Associated companies	<u>263</u>	<u>72</u>
	<u>572</u>	<u>936</u>

5. DIVIDEND

The Directors have resolved not to pay any interim dividend in respect of the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

6. EARNINGS/(LOSS) PER SHARE

Basic earnings per share was calculated based on the profit attributable to shareholders of HK\$20,383,000 (six months ended 30 June 2003: loss of HK\$69,299,000) and the weighted average number of 3,941,860,130 (six months ended 30 June 2003: 2,440,390,877) ordinary shares in issue during the period.

Diluted earnings per share was calculated based on the above basic earnings plus the interest expenses on dilutive convertible notes of HK\$606,000, and the above weighted average number of ordinary shares in issue plus the weighted average number of 537,368,632 ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares. The diluted loss per share for the six months ended 30 June 2003 was not shown as the effect of the assumed conversion of the Group's outstanding convertible notes and the exercise of the share options granted by the Company would be regarded as anti-dilutive.

7. NON-TRADING SECURITIES

Non-trading securities comprised an investment in the shares of SBI E2-Capital Holdings Limited, a company listed in Singapore. As at 30 June 2004, the Group has arranged to dispose of this investment for approximately HK\$9,979,000 and the directors are of the opinion that the value realisable under the arrangement represents the fair value of the investment.

In accordance with the Group's accounting policies on investments in non-trading securities, the directors have carried out an impairment review of the Group's individual investments at 30 June 2004 and concluded that an impairment loss of HK\$11,189,000 previously provided should be written back in the consolidated profit and loss account for the six months ended 30 June 2004 (six months ended 30 June 2003: provision for impairment loss of HK\$66,453,000) in respect of the Group's non-trading securities (note 18(b)).

8. ACCOUNTS RECEIVABLE

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Accounts receivable arising from garment manufacturing (<i>note a</i>)	14,289	10,782
Accounts receivable arising from consulting, marketing and technology services (<i>note b</i>)	634	4,741
Other trade debtors	455	591
	<hr/> 15,378 <hr/>	<hr/> 16,114 <hr/>

Notes:

- The credit terms of accounts receivable arising from garment manufacturing range from 30 days to 180 days.
- The credit terms of accounts receivable arising from consulting, marketing and technology services range from 30 days to 60 days.
- The aging analysis of the accounts receivable balance is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within one month	4,837	12,545
Over one month but not exceeding three months	10,164	2,236
Over three months but not exceeding six months	273	957
Over six months	104	376
	<hr/> 15,378 <hr/>	<hr/> 16,114 <hr/>

9. AMOUNT DUE FROM/TO A RELATED COMPANY

The balance represents an amount due from/to E2-Capital (Holdings) Limited. The amount due from/to E2-Capital (Holdings) Limited is unsecured, interest free and has no fixed terms of repayment.

10. ACCOUNTS PAYABLE

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Accounts payable arising from garment manufacturing and operation of a country club	11,296	10,817
Accounts payable arising from consulting, marketing and technology services	247	2,492
Other trade creditors	5	5
	<hr/> 11,548 <hr/>	<hr/> 13,314 <hr/>

The aging analysis of the accounts payable balance is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within one month	4,480	6,825
Over one month but not exceeding three months	3,121	5,483
Over three months but not exceeding six months	3,389	385
Over six months	558	621
	<hr/> 11,548 <hr/>	<hr/> 13,314 <hr/>

11. LONG TERM LIABILITIES

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Loan from a former intermediate holding company (<i>note a</i>)	10,827	10,948
Loan from a former fellow subsidiary (<i>note b</i>)	64,530	65,250
	75,357	76,198

Notes:

- (a) The balance represents a loan from Softbank Finance Corporation ("SFB"), a former intermediate holding company of the Company. The loan, denominated in Japanese Yen, is unsecured, interest bearing at 2.375% per annum and subordinated to the 2005 Notes (*note 14*).
- (b) The balance represents a loan from SB Titus Corporation, a wholly-owned subsidiary of SFB. The loan, denominated in Japanese Yen, is unsecured, interest bearing at 2.375% per annum and subordinated to the 2005 Notes (*note 14*).

12. SHARE CAPITAL

Authorised:

	Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 December 2003 and 30 June 2004	6,000,000,000	600,000

Issued and fully paid:

	Six months ended					
	30 June 2004		30 June 2003		31 December 2003	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
At the beginning of the period	3,632,890,871	363,289	2,440,390,877	244,039	2,440,390,877	244,039
Issue of shares (<i>note a</i>)	99,152,542	9,915	—	—	—	—
Exercise of options	4,198,000	420	—	—	—	—
Issue of shares upon conversion of convertible notes (<i>note 14</i>)	376,166,666	37,617	—	—	1,192,499,994	119,250
At the end of the period	4,112,408,079	411,241	2,440,390,877	244,039	3,632,890,871	363,289

Notes:

- (a) During the six months ended 30 June 2004, the Company issued 99,152,542 ordinary shares at HK\$0.118 each which amounted to HK\$11,700,000 for investment in IMHA (*note 3(a)*). As at 30 June 2004, 39,168,542 ordinary shares of the Company were held by IMHA.
- (b) As disclosed in *note 16(a)*, the Company has US\$1.5 million (equivalent to approximately HK\$11,700,000) share issuance commitment as at 30 June 2004 in respect of its investment in IMHA, a jointly controlled entity, on its achieving certain revenue targets.

13. RESERVES

	2004 HK\$'000	2003 HK\$'000
Share premium		
At 1 January	645,618	621,817
Issue of ordinary shares	3,168	—
Share issue expenses	(11)	—
At 30 June	648,775	621,817
Capital redemption reserve		
At 1 January and 30 June	1,899	1,899
Investment revaluation reserve		
At 1 January	(4,346)	(95,954)
Deficit on revaluation of non-trading securities	(25,203)	(27,213)
Transferred to the consolidated profit and loss account upon impairment of non-trading securities	—	66,453
Transferred to the consolidated profit and loss account upon disposal of non-trading securities	1,983	—
At 30 June	(27,566)	(56,714)
Exchange translation reserve		
At 1 January and 30 June	(6,534)	(6,336)
Accumulated losses		
At 1 January	(815,886)	(697,462)
Profit/(loss) for the period	20,383	(69,299)
At 30 June	(795,503)	(766,761)
	(178,929)	(206,095)

14. 5% GUARANTEED CONVERTIBLE NOTES

On 28 August 2002, SIIS Treasury Limited, a wholly-owned subsidiary of the Company, issued HK\$156,400,000 5% guaranteed convertible notes due in August 2005 (the "2005 Notes"). The 2005 Notes bear a fixed interest of 5% per annum and will mature on 29 August 2005. The 2005 Notes carry a right to convert at any time from 28 August 2002 to 29 August 2005 (both dates inclusive) into ordinary shares of the Company at an initial conversion price of HK\$0.31 per share which has been adjusted to HK\$0.12 per share (subject to adjustment) on the first anniversary date of 28 August 2003. During the six months ended 30 June 2004, a HK\$8,300,000 principal amount of the 2005 Notes were converted into 69,166,666 new ordinary shares of the Company (six months ended 31 December 2003: a principal amount of HK\$143,100,000 of the 2005 Notes were converted into 1,192,499,994 new ordinary shares of the Company).

On 2 February 2004 and 13 February 2004, SIIS Treasury Limited issued HK\$33,200,000 and HK\$14,800,000 5% guaranteed convertible notes (collectively the "2006 Notes") which are due on 2 February 2006 and 13 February 2006 respectively. The 2006 Notes bear a fixed interest of 5% per annum and carry a right to convert at any time from the date of issue to their respective maturity dates at a conversion price of HK\$0.1 per share. During the six months ended 30 June 2004, a HK\$30,700,000 principal amount of the 2006 Notes were converted into 307,000,000 new ordinary shares of the Company.

As at 30 June 2004, the outstanding principal amounts of the 2005 Notes and the 2006 Notes were HK\$5,000,000 (31 December 2003: HK\$13,300,000) and HK\$17,300,000 respectively.

15. CONTINGENT LIABILITIES

The Company provided undertakings to the Monetary Authority of Singapore ("MAS") in respect of the obligations and liabilities of SBI E2-Capital Pte Ltd and SBI E2-Capital Securities Pte Ltd, of which the Group has 14.77% and 31.54% effective equity interest respectively (note 17(e)).

16. COMMITMENTS

(a) Capital commitments

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Contracted but not provided for		
- in respect of the subscription of redeemable convertible notes issued by a private limited company	—	13,000
- in respect of capital contribution for the formation of an associated company (<i>note 18(a)</i>)	15,600	—
- in respect of capital contribution in a jointly controlled entity on its achieving certain revenue targets (<i>note 12(b)</i>)	11,700	—
	<u>27,300</u>	<u>13,000</u>

(b) Operating leases

At 30 June 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Not later than one year	2,666	3,602
Later than one year and not later than five years	1,885	1,990
	<u>4,551</u>	<u>5,592</u>

17. RELATED PARTY TRANSACTIONS

Related parties refer to E2-Capital (Holdings) Limited (“E2-Capital”) and its subsidiaries (collectively the “E2-Capital Group”), Fung Choi Properties Limited (“Fung Choi”), Mr Li Shui and Lai Fai International Holdings Limited (“Lai Fai”). E2-Capital is a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited. An executive director of the Company, Mr Wong Sin Just, is also an executive director and a substantial shareholder of E2-Capital. Fung Choi is a company indirectly owned as to 60% by Mr Yu Kam Kee, Lawrence, an executive director of the Company. Mr Li Shui, an ex-director of the Company (resigned on 3 October 2003), is also a director and a substantial shareholder of Lai Fai.

During the period, the Group undertook the following significant related party transactions in the normal course of business:

		Six months ended 30 June	
	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Marketing service fee income	(a)		
- E2-Capital Group		—	65
- Lai Fai		—	250
Rental expenses	(b)		
- Fung Choi		(833)	(833)
Advisory fee income from Lai Fai	(c)	—	526
Placing commission from Lai Fai	(c)	—	819
Services fee income from E2-Capital Group	(d)	—	500

Notes:

- (a) The Group received service income from E2-Capital Group for providing marketing, technology solutions and consulting services at rates agreed in accordance with an agreement entered into by both parties. The Group also received service income from Lai Fai for providing marketing and public relation services at rates agreed in accordance with an agreement entered into by both parties.
- (b) On 29 August 2002, the Company entered into a tenancy agreement with Fung Choi, whereby the Company agreed to lease from Fung Choi the premise as its headquarter office for a term of three years commencing from 1 January 2003 to 31 December 2005 at a monthly rental of HK\$156,255.
- (c) The Group received advisory fee and placing commission from Lai Fai at rates agreed in accordance with the agreements entered into by both parties.
- (d) The Group received reimbursement from E2-Capital Group for the provision of compliance and administrative services at an agreed amount.

- (e) Each of the Company and E2-Capital has agreed to, amongst other things, provide to the MAS the undertakings, as required under the MAS capital markets services licence, pursuant to which each of the Company and E2-Capital undertakes to maintain each of SBI E2-Capital Pte Ltd and SBI E2-Capital Securities Pte Ltd in a sound position and pay and settle all obligations and liabilities of SBI E2-Capital Pte Ltd and SBI E2-Capital Securities Pte Ltd arising during the existence of the undertakings. The Company and E2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of each of SBI E2-Capital Pte Ltd and SBI E2-Capital Securities Pte Ltd should be determined by reference to their respective shareholdings in SBI E2-Capital Limited. Accordingly, the Company has agreed to indemnify E2-Capital for 51% of any claim under the undertakings given to the MAS by E2-Capital and E2-Capital has agreed to indemnify the Company for 49% of any claim under the undertakings given to the MAS by the Company. Following the completion of the disposal of 2% equity interest in SBI E2-Capital Limited to Mr Wong Sin Just on 17 December 2003, the Group's interest in SBI E2-Capital Limited has been reduced from 51% to 49%. As such, Mr Wong Sin Just has indemnified the Company for 2% of its liability under the undertaking and indemnity given in relation to SBI E2-Capital Securities Pte Ltd.
- (f) During the six months ended 30 June 2003, the Group received a fixed monthly management and consultancy fee income of HK\$809,000 from SIIS Investment Management Limited ("SIM", formerly Softbank China Venture Investments Limited). Following the completion of the acquisition of the entire equity interest in SIM on 25 November 2003, SIM become a wholly-owned subsidiary of the Company and ceased to be a related party.
- (g) During the six months ended 30 June 2003, the Group paid interest expenses of HK\$1,156,000 at 2.375% per annum on the loans from the subsidiaries of SOFTBANK CORP., namely SBF, SB Titus Corporation (notes 11 (a) & 11(b)) and Softbank Investment Corporation ("SBI"). SOFTBANK CORP. was the former ultimate holding company of the Company. In November 2003, SOFTBANK CORP. and its subsidiaries completed the disposal of their shareholdings in the Company, and accordingly these companies have been ceased to be the related parties of the Group. The loan from SBI was fully repaid on 29 December 2003.
- (h) In February 2004, the 2006 Notes in the principal amount of HK\$24,000,000 were subscribed by Paper Rich Investments Limited, a subsidiary of E2-Capital. As at 30 June 2004, the outstanding principal amounts of the 2006 Notes held by Paper Rich Investments Limited were HK\$14,000,000.

18. SUBSEQUENT EVENTS

- (a) In July 2004, the Group entered into a supplement agreement with Xybernaut Corporation in relation to the formation of Xybernaut China Limited, whereby the Group agreed to satisfy the payment of the subscription price of US\$2 million (equivalent to approximately HK\$15,600,000) in Xybernaut China Limited either by cash or by issuing ordinary shares of the Company. Details of the transaction have been set out in the Announcement of the Company dated 8 July 2004. On 5 August 2004, the Company issued 78,000,000 ordinary shares at HK\$0.1 each to Xybernaut China Limited as the first payment of capital contribution of US\$1 million (equivalent to approximately HK\$7,800,000) (note 16(a)).
- (b) In July 2004, the Group entered into an agreement with PhilWeb Corporation ("PhilWeb") to dispose of a wholly owned subsidiary of the Company which holds shares in PhilWeb at a consideration of Philippine Pesos 80 million (equivalent to approximately HK\$11,189,000). As the investment cost of PhilWeb was fully provided for in the prior period, the directors considered that it is appropriate to write back the impairment provision up to an amount of HK\$11,189,000 in the consolidated profit and loss account for the six months ended 30 June 2004 (note 7). Also in July 2004, the Group entered into an agreement with PhilWeb Corporation to acquire approximately 7.6% interest in ISM Communications Corporation ("ISM") at the same consideration. The shares of ISM and PhilWeb are listed on the Philippine Stock Exchange.
- (c) In August 2004, the Group entered into a subscription agreement with iMagic Infomedia Technology Limited ("iMITL") whereby the Group agreed to subscribe for 39 shares, representing approximately 3% interest in the issued share capital of iMITL, at a consideration of HK\$3,000,000. The consideration was satisfied by the issuance of 30,000,000 ordinary shares of the Company at HK\$0.1 each on 18 August 2004.