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# Management Commentary

## **TO THE SHAREHOLDERS:**

On behalf of the Board of Directors (the "Board") of Softbank Investment International (Strategic) Limited (the "Company" or "SIIS"), I am pleased to present the operating results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2000.

## **INTERIM RESULTS AND DIVIDENDS**

Consolidated turnover of the Group was HK\$72.2 million for the six months ended 31 December 2000, representing a decrease of approximately 12% over the corresponding six months ended 31 December 1999 (HK\$82.2 million) and a decrease of approximately 10% over the interim period for the six months ended 30 September 1999 (HK\$80.6 million). Consolidated profit attributable to shareholders amounted to HK\$6 million during this interim period, compared with a net loss of HK\$16.5 million for the corresponding six months ended 31 December 1999 and a net loss of HK\$10.3 million over the interim period for the six months ended 30 September 1999. Earnings per share were HK0.32 cent (six months ended 31 December 1999: loss per share HK2.55 cents; six months ended 30 September 1999: loss per share HK1.75 cents).

The Board has resolved not to pay any interim dividend to shareholders (1999: nil).

## **BUSINESS REVIEW AND PROSPECTS**

As the Group's business was still in the process of restructuring during the period under review, the financial results for the six months ended 31 December 2000 mainly reflect the performance of our pre-existing businesses including dyestuffs distribution, household fabrics and garment manufacturing, as well as property investments. Nonetheless, the Group recorded a net profit for the period under review, which can be attributed to the gains arising from the disposal of certain businesses.

It should be noted that, in view of the current downturn in market conditions, in particular in the technology sector, Management has undertaken a revaluation exercise in respect of the Group's investments in the Internet sector. As a result, Management believes that the carrying values of certain of the Group's long-term investments (categorised in the

Group's accounts as "non-trading securities") should be written down. The Group's reserve for investment revaluation has accordingly been increased from approximately HK\$27 million to approximately HK\$95 million. As these investments were made relatively recently, and given the volatility of the market and general uncertainty of the longer term market trend, Management for the present has decided not to treat these devaluations as permanent. The devaluations have therefore not been included in the profit and loss account, but have instead been provided for in the investment revaluation reserve. Management shall continue to closely monitor these investments and, in the event that these devaluations are determined to be of a more permanent nature, these devaluations will be realised as losses and reflected in the profit and loss account.

I am also pleased to announce that effective from 1 December 2000, SIIS has become a constituent of the Hang Seng 100 index, indicating that it is one of the 100 highest-ranking companies listed on the Stock Exchange of Hong Kong in terms of market capitalization and turnover.

## **Dyestuffs Distribution**

Dyestuffs distribution business accounted for approximately 28% of the Group's turnover. The division recorded HK\$20 million in turnover for the six months ended 31 December 2000, representing a decrease of 27% over the corresponding six months ended 31 December 1999 (HK\$27.5 million). But the operating loss for this division decreased by 19% to HK\$1.3 million during this interim period, compared with an operating loss of HK\$1.6 million for the corresponding six months ended 31 December 1999. During the period under review, the Company disposed of its interests in Takson Limited, a wholly-owned subsidiary which has equity interests in a loss-making entity, namely Nanhai Shiquan Textile Auxiliary Factory, in the PRC.

Our restructuring strategy for this division includes transforming its offline operations into e-commerce operations where suitable. Feasibility studies conducted by our Net-Trans division are still ongoing and we look forward to reporting to shareholders the progress made.

# Management Commentary

## **Household Fabrics and Garment Manufacturing**

Household fabrics and garment manufacturing business accounted for approximately 60% of the Group's turnover. Turnover of the division decreased by 9% to HK\$43.3 million for the six months ended 31 December 2000, compared with the turnover of HK\$47.6 million for the corresponding six months ended 31 December 1999. But the division made an operating profit of HK\$15.1 million during this interim period, compared with an operating loss of HK\$0.2 million for the corresponding six months ended 31 December 1999. The significant improvement was mainly due to a gain of HK\$14.5 million arising from the disposal of the household fabrics manufacturing operations which included two companies, namely Alliance Printing and Manufacturing Company Limited and Asiapeak International Limited. Both companies were wholly-owned and loss-making subsidiaries, engaging in the household fabrics and bed linen manufacturing business. The Directors considered that the disposals were in the best interests of the Company. We will continue to control the cost and review the operations, and when appropriate, will make further disposals of loss-making subsidiaries.

## **Property Investments and Other**

Turnover of the division increased by 25% to HK\$8.9 million for the six months ended 31 December 2000, compared with the turnover of HK\$7.1 million for the corresponding six months ended 31 December 1999. The division recorded an operating loss of HK\$3.4 million during this interim period, compared with an operating loss of HK\$13.7 million for the corresponding six months ended 31 December 1999.

## **Business Development Division**

The objective of the Business Development Division is to identify and evaluate strategic partners and investment opportunities which could bring synergy with our existing businesses (such as the Net-Trans Division and the Time Machine Division).

The term of the agreement with chinadotcom corporation ("CCC") dated 31 March 2000 was extended. Pursuant to the agreement with CCC, the Company and CCC conditionally agreed to exchange new shares with each other and to establish a 50/50 joint venture to provide technology and business consultancy services. Further information will be published as soon as the ongoing negotiations between the Company and CCC are finalized.

On 1 August 2000, the Company subscribed for shares in Softbank Asia Net-Trans Fund Limited (the "Fund") for a total consideration of US\$6 million (equivalent to approximately HK\$46.5 million). Targeting the Asian market (excluding Japan), the Fund aims to invest in traditional offline businesses that have the potential to be converted into successful online businesses and companies that can bring synergy to the core segments of the commercial Internet arena including e-commerce, content provision, business services and consumer services. The Fund is managed by Softbank China Venture Investments Limited, an indirect wholly-owned subsidiary of SOFTBANK CORP., the Company's substantial shareholder. The Board believes that, besides the possibility of financial benefits, the investment may help the Group to establish strong relationships and develop new businesses with other offline companies that are going online and technology companies which focus on e-enabling businesses. The Board believes that this may also be particularly beneficial to the Company's Net-Trans Division.

On 11 August 2000, the Company purchased 10% of the issued share capital of China Travel Net Limited ("CTN") from China Travel Service (Holdings) Hong Kong Limited for a total consideration of HK\$100 million. CTN, a provider of travel-related application software systems, including identity and security documentation as well as information management system, is expanding into the online travel business to provide comprehensive information and ticketing services to travellers and traditional travel agents. The Board believes that the online travel business has the potential to expand considerably over time.

# Management Commentary

On 7 November 2000, the Company purchased 1,867,200 shares (10% of the issued share capital) of Morningstar Asia Limited ("Morningstar Asia") from Advanced Internet Visions Limited ("AIV"), a subsidiary of Pacific Century CyberWorks Limited ("PCCW"), for a total consideration of HK\$18.7 million. Morningstar Asia, a joint venture between SII, Softbank Finance Corp., AIV and Morningstar Inc., aims to provide consumer-oriented websites in Asia which offer data and customized editorial content on the domestic stocks and mutual funds of Asian countries. Morningstar Asia also has an exclusive license to market and distribute Morningstar products in Asia (excluding Japan, Korea and Australia) and develop Asian-focused derivative products from the standard Morningstar products. In view of the successes of Morningstar Inc. and Morningstar Japan, the Board believes that the investment in Morningstar Asia has potential to bring strategic and financial benefits to the Group.

## **Net-Trans Division**

The role of the Net-Trans Division is to assist non-Internet related businesses to transform their business models into Internet-related businesses by infusing appropriate IT resources.

It is generally accepted that the Internet will have a dramatic impact on the way people do business. As traditional offline companies prepare to integrate the Internet into their existing operations in order to cut costs, enhance efficiency and reach into new marketplaces, the Company is positioning the Net-Trans Division to capitalise on this movement.

During the period under review, the Net-Trans Division was responsible for starting the transformation of certain aspects of the Group's dyestuff operations into e-commerce operations, providing IT support including design, implementation and maintenance of the corporate website (<http://www.softbank.com.hk>), office automation, LAN/WAN and the IT infrastructures for the Company and its affiliates, as well as exploring the development of Net-Trans businesses based on strategies defined by Management or by cooperating with Group companies and affiliates.

## **Time Machine Division**

We recognize that Internet development in Asia lags behind the U.S.. The objective of the Time Machine Division is to study successful overseas Internet business models and, where appropriate, apply them locally with the appropriate level of localisation. In view of the success stories of Time Machine businesses in Japan, such as Cisco Japan, E\*Trade Japan, Morningstar Japan and the others, we believe that the same concept may be applicable to Hong Kong and other Asian markets.

During the period under review, the division worked closely with the Business Development Division as well as Softbank Finance Corp., PCCW and Morningstar Inc. to implement the U.S. Morningstar model — to be a leading independent provider of reliable, unbiased investment information and analytic tools — in Hong Kong (please refer to additional information in the Business Development Division section above).

## **New Development & Prospects**

Leveraging on the global network of the SOFTBANK Group which has over 400 companies, SIIS is well positioned to collaborate with leading Internet companies to help shape the global e-future. Notwithstanding the recent "tech meltdown", we are still confident that the Internet will be a driving force for economic development, with companies eventually adopting the Internet into their daily operations to cut costs and enhance efficiency.

SIIS has further strengthened its position by strategically diversifying its core businesses into another promising arena — financial services. Subsequent to the period, on 31 January 2001, SIIS reached an agreement with Hong Kong-listed e2-Capital (Holdings) Limited ("e2-Capital") to acquire 51% of the issued share capital of e2-Capital Securities (Holdings) Limited ("e2-Capital Securities"), a wholly-owned subsidiary of e2-Capital. e2-Capital Financial Services Group (to be identified as "A Member of Softbank Investment Group"), comprising e2-Capital Securities (to be renamed as "SBIe2-Capital Limited") and its subsidiaries, is the financial services arm of e2-Capital. The business of e2-Capital Financial Services Group comprises technology investment banking and securities broking businesses in Hong Kong, the PRC, Singapore and the USA. It has a proven track record and prominent financial expertise. Meanwhile, SIIS also reached an agreement with its parent company, Softbank

# Management Commentary

Investment (International) Holdings Limited ("SBIIH") whereby SBIIH has agreed to subscribe for cash for 132,653,061 new shares at an aggregate subscription price of HK\$130 million. The acquisition of e2-Capital Securities is expected to be completed on or about 3 April 2001, subject to shareholders' approval and other conditions.

In addition, the Company has subscribed for a HK\$10 million stake in iLink Holdings Limited ("iLink"), as part of iLink's pre-initial public offering placement of shares to strategic investors. iLink was listed on the Growth Enterprise Market of the Stock Exchange in Hong Kong on 9 March 2001. iLink is an Internet application solution provider, targeting small and medium-sized enterprises in Asia with a focus on Greater China. Management regards the total services provided by iLink as specialist activities which have the potential to facilitate and enhance the Company's Net-Trans concept of taking offline businesses online.

## LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2000, the Group had total available banking facilities of approximately HK\$57 million of which HK\$35 million remained unutilized. In addition, the Group had bank and cash balances of approximately HK\$78 million on the same date.

At 31 December 2000, the total borrowings of the Group amounted to HK\$122,449,000, out of which HK\$14,077,000 and HK\$101,615,000 are repayable in 2001 and 2002 respectively. The remaining borrowings of the Group of HK\$6,757,000 are repayable in the years from 2003 to 2005. The Group's borrowings denominated in Hong Kong dollar and Renminbi were HK\$113,958,000 and HK\$8,491,000 respectively.

Regarding the loans to be repaid in 2002, Management is working diligently to explore repayment methods and realise adequate proceeds to repay such amounts, and hopes to be able to realise adequate proceeds from the sale and streamlining of the Group's existing traditional business as the Group continues to diversify into Internet-related businesses. The streamlining of the Group's business is expected to involve the disposal of non-core assets and businesses before the maturity of the loan.

At 31 December 2000, the gearing ratio of the Group was 45.9% (at 30 June 2000: 7.6%) calculated by dividing the total borrowings of HK\$122,449,000 (at 30 June 2000: HK\$26,052,000) by shareholders' funds of HK\$266,650,000 (at 30 June 2000: HK\$344,126,000).

## **CHARGES ON GROUP ASSETS**

At 31 December 2000, the Group's banking facilities were secured by properties of the Group with net book value of HK\$76,023,000 (at 30 June 2000: HK\$82,500,000).

## **EMPLOYEES**

As at 31 December 2000, the total number of employees of the Group was around 840. The employees are offered discretionary bonuses based on merit and performance. The Group also encourages and subsidizes employees to enroll in external training courses and seminars organized by professional bodies. Details of the Group's share option scheme were disclosed in the circular dated 25 September 2000.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 31 December 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

# Management Commentary

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 2000, the interests of the Directors in the shares of the Company as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

Name of Director	Number of ordinary shares of HK\$0.10 each of the Company		
	Personal Interest	Corporate Interest	Total
Lawrence, Kam Kee YU	162,918,026	4,882,965*	167,800,991
Junichi GOTO	14,003,250	—	14,003,250
Ricky, Kam Wai YU	12,083,885	—	12,083,885
Lincoln, Kam Yuen YU	12,083,885	—	12,083,885

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

Details of the share options granted to certain Directors of the Company during the financial period and outstanding at 31 December 2000 are listed below. The outstanding options were granted pursuant to the Company's share option scheme; such options entitle the holders to subscribe for shares in the Company at HK\$0.48 per share at any time during the period from 1 November 2000 to 31 October 2010.

Name of Director	Number of shares under options			
	As at 30 June 2000	Cancelled during the period	Granted during the period	As at 31 December 2000
Yoshitaka KITAO	17,772,000	17,772,000	27,960,000	27,960,000
Hiroyuki NAKANISHI	8,886,000	8,886,000	20,000,000	20,000,000
Katsuya KAWASHIMA	8,886,000	8,886,000	15,000,000	15,000,000
Junichi GOTO	8,886,000	8,886,000	15,000,000	15,000,000
Steve, Ming Jang CHANG	12,694,000	12,694,000	15,000,000	15,000,000

Save as disclosed above, none of the Directors or chief executives of the Company had any interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance), and none of the Directors or chief executives of the Company (or their spouse or children under 18 years of age) had any right to subscribe for any equity or debt securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	<u>Number of ordinary shares of HK\$0.10 each</u>
Softbank Investment (International) Holdings Limited*	777,250,000
SB K&K Corporation*	260,000,000

\* Softbank Investment (International) Holdings Limited is a direct wholly-owned subsidiary of Softbank Investment Corporation ("SBI"). SB K&K Corporation is a direct wholly-owned subsidiary of Softbank Finance Corporation ("SBF"). SBF also owns 85% interests in SBI and is in turn a direct wholly-owned subsidiary of SOFTBANK CORP..

## 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited at any time during the six months ended 31 December 2000.

## **AUDIT COMMITTEE**

The Audit Committee of the Company 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 31 December 2000. 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 the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

By Order of the Board

**Yoshitaka Kitao**

*Chairman, President and Chief Executive Officer*

Hong Kong, 27 March 2001

# Condensed Consolidated Profit and Loss Account

For the six months ended 31 December 2000

	Note	UNAUDITED		UNAUDITED
		Six months ended		Six months ended
		31 December		30 September
		2000	1999	1999
		HK\$'000	HK\$'000	HK\$'000
TURNOVER	2	<b>72,188</b>	82,196	80,589
COST OF SALES		<b>(54,139)</b>	(62,671)	(59,989)
GROSS PROFIT		<b>18,049</b>	19,525	20,600
OTHER REVENUES		<b>2,809</b>	491	471
DISTRIBUTION COSTS		<b>(1,073)</b>	(1,935)	(2,200)
ADMINISTRATIVE EXPENSES		<b>(26,194)</b>	(21,650)	(21,831)
OTHER OPERATING EXPENSES		<b>(1,649)</b>	(1,476)	—
REALISED/ UNREALISED LOSSES				
ON TRADING INVESTMENT		—	(10,480)	(6,000)
GAIN ON DISPOSAL OF				
SUBSIDIARIES		<b>14,843</b>	—	—
SURPLUS ON REVALUATION OF				
INVESTMENT PROPERTIES		<b>3,614</b>	—	—
OPERATING PROFIT/ (LOSS)	2 & 3	<b>10,399</b>	(15,525)	(8,960)
FINANCE COSTS		<b>(4,080)</b>	(1,664)	(1,874)
SHARE OF (LOSS)/ PROFIT OF				
AN ASSOCIATED COMPANY		<b>(29)</b>	316	581
PROFIT/ (LOSS)				
BEFORE TAXATION		<b>6,290</b>	(16,873)	(10,253)
TAXATION	5	<b>(514)</b>	(470)	(693)
PROFIT/ (LOSS) AFTER TAXATION		<b>5,776</b>	(17,343)	(10,946)
MINORITY INTERESTS		<b>266</b>	816	632
PROFIT/ (LOSS) ATTRIBUTABLE				
TO SHAREHOLDERS		<b>6,042</b>	(16,527)	(10,314)
EARNINGS/ (LOSS) PER SHARE	6			
Basic		<b>0.32 cent</b>	(2.55 cents)	(1.75 cents)

# Condensed Consolidated Balance Sheet

As at 31 December 2000 and 30 June 2000

		<b>UNAUDITED</b>	AUDITED
		<b>31 December</b>	30 June
		<b>2000</b>	2000
	Note	<b>HK\$'000</b>	HK\$'000
<hr/>			
FIXED ASSETS		<b>183,597</b>	186,377
INVESTMENTS IN ASSOCIATED COMPANIES		<b>249</b>	1,028
NON-TRADING SECURITIES	8	<b>149,771</b>	52,000
CURRENT ASSETS			
INVENTORIES		<b>18,670</b>	24,248
ACCOUNTS RECEIVABLE	9	<b>24,021</b>	31,071
SUNDRY DEBTORS, PREPAYMENTS AND DEPOSITS		<b>4,954</b>	4,894
CASH AND BANK BALANCES		<b>77,590</b>	149,447
<hr/>			
		<b>125,235</b>	209,660
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CURRENT LIABILITIES			
ACCOUNTS PAYABLE	10	<b>19,797</b>	27,970
OTHER PAYABLES AND DEPOSITS RECEIVED		<b>17,713</b>	17,083
CURRENT PORTION OF LONG-TERM LIABILITIES	11	<b>1,463</b>	3,902
BANK LOANS AND OVERDRAFTS			
Secured		<b>11,671</b>	11,454
Unsecured		<b>943</b>	943
TAX PAYABLE		<b>1,109</b>	1,511
<hr/>			
		<b>52,696</b>	62,863
<hr/>			
NET CURRENT ASSETS		<b>72,539</b>	146,797
<hr/>			
		<b>406,156</b>	386,202
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# Condensed Consolidated Balance Sheet

As at 31 December 2000 and 30 June 2000

		<b>UNAUDITED</b>	AUDITED
		<b>31 December</b>	30 June
		<b>2000</b>	2000
	Note	<b>HK\$'000</b>	HK\$'000
<hr/>			
FINANCED BY :			
SHARE CAPITAL	12	<b>188,591</b>	188,591
RESERVES	13	<b>78,059</b>	155,535
<hr/>			
SHAREHOLDERS' FUNDS		<b>266,650</b>	344,126
MINORITY INTERESTS		<b>31,134</b>	32,323
LONG-TERM LIABILITIES	11	<b>108,372</b>	9,753
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		<b>406,156</b>	386,202
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# Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2000

	UNAUDITED	
	Six months ended	
	31 December	
	2000	1999
	HK\$'000	HK\$'000
Net cash (outflow) / inflow from operating activities	<b>(8,177)</b>	3,206
Net cash inflow /(outflow) from returns on investments and servicing of finance	<b>1,114</b>	(1,173)
Total taxation paid	<b>(774)</b>	(676)
Net cash outflow from investing activities	<b>(161,511)</b>	(1,887)
Net cash inflow from financing	<b>106,753</b>	6,586
(Decrease)/ increase in cash and cash equivalents	<b>(62,595)</b>	6,056
Cash and cash equivalents at 1 July	<b>137,993</b>	19,469
Cash and cash equivalents at 31 December	<b>75,398</b>	25,525
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>77,590</b>	34,126
Bank loans maturing within three months	<b>(2,192)</b>	(8,601)
	<b>75,398</b>	25,525

# Condensed Statement of Recognised Gains and Losses

For the six months ended 31 December 2000

		UNAUDITED	
		Six months ended	
		31 December	
		2000	1999
	Note	HK\$'000	HK\$'000
Deficit on revaluation of non-trading securities not recognised in the profit and loss account	13	<b>(68,675)</b>	—
Profit / (loss) for the period		<b>6,042</b>	(16,527)
Capital reserve released to profit and loss account upon disposal of subsidiaries	13	<b>(14,693)</b>	—
Exchange translation reserve released to profit and loss account upon disposal of an subsidiary	13	<b>(150)</b>	—
Total recognised losses		<b>(77,476)</b>	(16,527)
Goodwill eliminated directly against reserves		—	(25)
		<b>(77,476)</b>	(16,552)

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 1. Accounting policies

These unaudited consolidated condensed interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("HKSSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, (as applicable to condensed interim accounts), and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the period of fifteen months from 1 April 1999 to 30 June 2000.

As a result of the adoption of the revised HKSSAP No.1 (revised) "Presentation of financial statements" which became effective in 2000, certain 1999 comparative figures have been extended accordingly.

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 2. Turnover

The Group is principally engaged in dyestuffs distribution, household fabric and garment manufacturing, property investments and investment holding.

An analysis of the Group's turnover and contribution to operating profit / (loss) for the period by principal activities and markets is as follows :

	TURNOVER			OPERATING PROFIT/(LOSS)		
	Six months ended 31 December 2000	Six months ended 30 September 1999	Six months ended 30 September 1999	Six months ended 31 December 2000	Six months ended 30 September 1999	Six months ended 30 September 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities :						
Dyestuffs distribution	20,026	27,481	29,533	(1,298)	(1,564)	562
Household fabric and garment manufacturing						
- Continuing operations	30,231	31,073	27,846	1,692	713	968
- Discontinued operations	13,020	16,534	16,163	(1,078)	(932)	(775)
- Gain on disposal (Note 4)	—	—	—	14,462	—	—
Property holding, investment holding and others	8,911	7,108	7,047	(3,379)	(13,742)	(9,715)
	<b>72,188</b>	82,196	80,589	<b>10,399</b>	(15,525)	(8,960)
By principal markets :						
Hong Kong	26,075	30,495	28,839	11,344	(13,274)	(7,186)
Mainland China ("PRC")	40,509	41,025	39,307	(371)	(1,434)	(166)
Overseas	5,604	10,676	12,443	(574)	(817)	(1,608)
	<b>72,188</b>	82,196	80,589	<b>10,399</b>	(15,525)	(8,960)

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 3. Operating profit / (loss)

Operating profit / (loss) is stated after crediting and charging the following :

	Six months ended 31 December <b>2000</b> <b>HK\$'000</b>	Six months ended 30 September 1999 HK\$'000	Six months ended 30 September 1999 HK\$'000
Crediting :			
Gain on disposal of fixed assets	11	—	—
Charging :			
Depreciation on owned fixed assets	4,736	4,649	4,929
Amortisation of deferred pre-operating expenses	—	385	386
Loss on disposal of fixed assets	—	56	34

## 4. Discontinued operations

During the period, in view of loss-making, the Group sold its household fabrics manufacturing operation. A gain of HK\$14.5 million, which represents the difference between the net proceeds of sale and the carrying amount of the net assets of the operation at the date of sale together with the capital reserve, which was not previously recognized in the profit and loss account, is included in operating profit.

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 5. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the period.

Taxation on PRC profits has been calculated at the rate of 27% on the estimated assessable profit for the period.

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

	Six months ended 31 December 2000 HK\$'000	Six months ended 30 September 1999 HK\$'000	Six months ended 30 September 1999 HK\$'000
Company and subsidiaries :			
Hong Kong	—	21	16
PRC	514	398	584
	514	419	600
Share of taxation attributable to associated company :			
Hong Kong	—	51	93
	514	470	693

## 6. Earnings / (loss) per share

The calculation of basic earnings / (loss) per share is based on the Group's profit attributable to shareholders of HK\$6,042,000 (six months ended 31 December 1999: loss of HK\$16,527,000; six months ended 30 September 1999: HK\$10,314,000) and on the weighted average number of 1,885,915,878 (six months ended 31 December 1999: 648,907,487; six months ended 30 September 1999: 588,079,878) ordinary shares in issue during the period. Fully diluted earnings/ (loss) per share is not shown as there is no dilution effect.

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 7. Dividend

The Directors have resolved not to pay any interim dividend in respect of the six months ended 31 December 2000.

## 8. Non-trading securities

In accordance with the Group's accounting policies on investments in securities, the Directors have reviewed the Group's individual investments at 31 December 2000 in order to determine if their fair values have been impaired. Following the review, the Directors consider that the fair values of the Group's investments in securities have diminished by an aggregate of HK\$95,464,000 since acquisition and the diminution is temporary only. Accordingly, the diminution in value has been included in the investment revaluation reserve.

## 9. Accounts receivable

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

	<b>31 December</b>	30 June
	<b>2000</b>	2000
	<b>HK\$'000</b>	HK\$'000
0 - 1 month	<b>9,585</b>	12,475
2 - 3 months	<b>9,556</b>	13,288
4 - 6 months	<b>3,070</b>	4,756
Over 6 months	<b>1,810</b>	552
	<b>24,021</b>	31,071

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 10. Accounts payable

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

	<b>31 December</b>	30 June
	<b>2000</b>	2000
	<b>HK\$'000</b>	HK\$'000
0 - 1 month	<b>5,673</b>	6,923
2 - 3 months	<b>4,867</b>	8,164
4 - 6 months	<b>3,650</b>	5,671
Over 6 months	<b>5,607</b>	7,212
	<b>19,797</b>	27,970

## 11. Long-term liabilities

	<b>31 December</b>	30 June
	<b>2000</b>	2000
	<b>HK\$'000</b>	HK\$'000
Bank loans		
Unsecured	<b>100,000</b>	—
Secured	<b>9,835</b>	13,655
	<b>109,835</b>	13,655
Amounts due within one year included under current liabilities	<b>(1,463)</b>	(3,902)
	<b>108,372</b>	9,753

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

(a) The analysis of the above is as follows:

	<b>31 December</b>	30 June
	<b>2000</b>	2000
	<b>HK\$'000</b>	HK\$'000
Wholly repayable within five years	<b>109,835</b>	11,745
Not wholly repayable within five years	—	1,910
	<b>109,835</b>	13,655

(b) The long term liabilities were repayable as follows:

	<b>31 December</b>	30 June
	<b>2000</b>	2000
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,463</b>	3,902
In the second year	<b>101,615</b>	2,178
In the third to fifth year inclusive	<b>6,757</b>	5,665
In more than five years	—	1,910
	<b>109,835</b>	13,655

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 12. Share capital

Authorised:

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 July 2000 and 31 December 2000	5,000,000,000	500,000

Issued and fully paid:

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 July 2000 and 31 December 2000	1,885,915,878	188,591

Share option scheme:

At the annual general meeting held on 25 October 2000, the Company adopted a share option scheme to replace the old one which had expired on 1 October 2000. The new scheme empowers the Directors to grant options to eligible Directors and employees of the Group on or before 24 October 2010. On 1 November 2000, a total of 111,860,000 share options were granted under the new scheme and 66,260,000 outstanding share options, which were subject to the old scheme at that time, were cancelled with the consent of the respective option-holders.

Details of outstanding share options as at 31 December 2000 were as follows:

Date of grant	Number of shares under options				
	At	Cancelled	Granted	Exercised	At
	1 July 2000	during the	during the	during the	31 December
		period	period	period	2000
27 April 2000	66,260,000	66,260,000	—	—	—
1 November 2000	—	—	111,860,000	—	111,860,000

The share options granted on 1 November 2000 entitle the holders to subscribe for shares in the Company at HK\$0.48 per share at any time during the period from 1 November 2000 to 31 October 2010 subject to the conditions specified when granting the options.

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 13. Reserves

	HK\$'000
Share premium	
At 1 July 2000 and 31 December 2000	274,834
Capital redemption reserve	
At 1 July 2000 and 31 December 2000	1,899
Capital reserve	
At 1 July 2000	14,786
Reserve realized upon disposal of subsidiaries	(14,693)
At 31 December 2000	93
Investment revaluation reserve	
At 1 July 2000	(26,789)
Deficit on revaluation of non-trading securities	(68,675)
At 31 December 2000	(95,464)
Exchange translation reserve	
At 1 July 2000	(6,383)
Charged to profit and loss account upon disposal of a subsidiary	(150)
At 31 December 2000	(6,533)
Accumulated losses	
At 1 July 2000	(102,812)
Profit for the period	6,042
At 31 December 2000	(96,770)
	78,059

## 14. Commitments

At 31 December 2000, the Group had commitments to make payments of HK\$11,017,000 in the next twelve months in respect of land and buildings under an operating lease which expires in the second to fifth year inclusive.

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

## 15. Related party transactions

The Group undertook the following related party transactions:

- (i) During the period, purchases from an associated company amounted to HK\$Nil (six months ended 31 December 1999: HK\$8,346,000). The purchases were conducted, in the opinion of the Directors, in the normal course of business at prices and terms no less than those charged by and contracted with other third party suppliers of the Group.
- (ii) During the period, the Company entered into a share purchase agreement and a joint venture agreement with various parties including, inter alia, Softbank Finance Corporation, a substantial shareholder of the Company, which indirectly holds approximately 61% interest in the Company by the time when entering such agreements (currently holds directly and indirectly an aggregate of approximately 49% interest in the Company). In accordance with the terms of the share purchase agreement, which were entered into on normal commercial terms following arm's length negotiations among the parties to the share purchase agreement, the Company purchased 10% of the issued share capital of Morningstar Asia Limited, a company incorporated in Hong Kong and engaged in the business of provision of financial and information services.

## 16. Subsequent events

(A) On 31 January 2001, the Company entered into the following agreements :

- (i) a Share Purchase Agreement pursuant to which Goodwill Investment (BVI) Limited ("Goodwill") agrees to sell and the Company through its wholly-owned subsidiary, SBIS Capital Holdings Limited ("SBIS CH"), agrees to purchase 153 shares with a par value of HK\$1.00 each, being 51% of the issued share capital of e2-Capital Securities (Holdings) Limited ("e2-Capital Securities"), for a consideration of HK\$318.5 million ("Consideration"). The Consideration shall be satisfied by the payment of HK\$130 million in cash by SBIS CH to Goodwill and the remaining balance of HK\$188.5 million shall be satisfied by the issue and delivery by the Company to Goodwill or its nominee of 192,346,938 ordinary shares of HK\$0.10 each in the capital of the Company;

# Notes to Condensed Interim Accounts

For the six months ended 31 December 2000

- (ii) a Shareholders Agreement whereby the respective rights and obligations of SBIS CH and Goodwill in respect of the management and operation of e2-Capital Securities and its subsidiaries are specified; and
- (iii) a Subscription Agreement pursuant to which Softbank Investment (International) Holdings Limited ("SBIIH") agrees to subscribe 132,653,061 ordinary shares of HK\$0.10 each in the capital of the Company at an aggregate subscription price of HK\$130 million payable in cash.

The transactions contemplated under the Share Purchase Agreement, the Shareholders Agreement and the Subscription Agreement as mentioned above are expected to complete on or about 3 April 2001 subject to the approval of the shareholders (other than SBIIH and its associate, SB K&K Corporation) of the Company and other conditions.

- (B) On 7 March 2001 the Company, by way of placing, subscribed 7,810,000 shares of HK\$0.10 each in iLink Holdings Limited ("iLink") for a total consideration of HK\$10,098,000, including brokerage and transaction levy. The shares of iLink were listed on the Growth Enterprise Market of the Hong Kong Stock Exchange on 9 March 2001.