

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Softbank Investment International (Strategic) Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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Softbank Investment International (Strategic) Limited

(incorporated in Hong Kong with limited liability)

**Major transaction
involving an acquisition of an interest in
the financial services business of
e2-Capital (Holdings) Limited,
and connected transactions
involving an issue of new shares to
Softbank Investment (International) Holdings Limited
and
the provision of a guarantee to
the Monetary Authority of Singapore and
an indemnity to e2-Capital (Holdings) Limited by
Softbank Investment International (Strategic) Limited**

**Formation of joint venture,
SBI e2-Capital Limited, between
Softbank Investment International (Strategic) Limited and
e2-Capital (Holdings) Limited**

Independent financial adviser to the Independent Director

**PACIFIC CHALLENGE
Pacific Challenge Capital Limited**

A letter from the board of directors of Softbank Investment International (Strategic) Limited dated 14 March 2001 is set out on pages 6 to 19 of this circular.

A letter from Pacific Challenge Capital Limited, the independent financial adviser to the Independent Director, containing its advice and recommendation to the Independent Director dated 14 March 2001 is set out on pages 21 to 32 of this circular.

A notice convening an extraordinary general meeting of Softbank Investment International (Strategic) Limited to be held at the Chater Room III, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Friday, 30 March 2001 at 10:30 a.m. is set out on pages 93 to 95 of this circular. If you do not intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the Company's registered office at 11th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless otherwise defined or unless the context otherwise requires:—

“Acquisition”	the acquisition by SBIIS CH from Goodwill of the Sale Shares pursuant to the Share Purchase Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company” or “SIIS”	Softbank Investment International (Strategic) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“Consideration”	a consideration of HK\$318.5 million in relation to the Acquisition
“Consideration Shares”	a total of 192,346,938 new Shares to be allotted and issued to Goodwill as part consideration for the Acquisition
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at the Chater Room III, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Friday, 30 March 2001 at 10:30 a.m. or any adjourned meeting thereof, notice of which is set out on pages 93 to 95 of this circular
“e2-Capital”	e2-Capital (Holdings) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“e2-Capital Financial Services Group”	e2-Capital Securities and the e2-Capital Subsidiaries
“e2-Capital Guarantee”	a guarantee dated 7 November 2000 given by e2-Capital to the MAS in relation to the obligations and liabilities of e2-Capital Pte Ltd under the MAS Investment Adviser Licence
“e2-Capital Indemnity”	a deed of indemnity to be entered into between e2-Capital and SIIS in respect of the obligations of SIIS under the SIIS Guarantee
“e2-Capital Securities”	e2-Capital Securities (Holdings) Limited, a company incorporated in the Cayman Islands as a limited liability company on 4 October 1996

DEFINITIONS

“e2-Capital Subsidiaries”	e2-Capital Securities (BVI) Limited, e2-Capital Commodities Limited, e2-Capital Securities Limited, e2-Capital (HK) Limited, Will Kong Nominees Limited, e2-Capital Brokerage Limited, e2-Capital Nominees Services Limited, e2-Capital Pte Ltd, e2-Capital (China) Inc., e2-Capital (USA) Inc., Turnton Investments Limited, Goodwill Credit Limited, e2-Capital Investment Management Limited, e2-Capital Research Limited, Goodwill Offshore Services Limited, Woodhill Investments Limited, Azure Assets Limited
“Enlarged Group”	the Company and its subsidiaries following the completion of the Acquisition
“Goodwill”	Goodwill Investment (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of e2-Capital
“Group”	the Company and its subsidiaries prior to completion of the Acquisition
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Director”	Mr Arthur Minshiang Wang, an independent non-executive director of the Company
“Independent Shareholders”	Shareholders other than SBIIH and its associate, SB K&K
“Joint Announcement”	the joint announcement of SIIS and e2-Capital dated 31 January 2001 in respect of the Transactions
“Latest Practicable Date”	14 March 2001, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MAS”	Monetary Authority of Singapore
“MAS Investment Adviser Licence”	an investment adviser licence granted by the MAS and held by e2-Capital Pte Ltd
“Pacific Challenge”	Pacific Challenge Capital Limited, an investment adviser registered with the Securities and Futures Commission under the Securities Ordinance, which has been appointed as the independent financial adviser to the Independent Director in relation to the Subscription Agreement and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS

DEFINITIONS

“Sale Shares”	153 shares of par value HK\$1.00 each in and representing 51% of the issued share capital of e2-Capital Securities at completion of the Acquisition
“S\$”	Singapore dollars, the lawful currency of Singapore
“SB K&K”	SB K&K Corporation, a company incorporated under the laws of Japan and the registered holder of approximately 14% of the issued share capital of the Company
“SBIIH”	Softbank Investment (International) Holdings Limited, a company incorporated under the laws of the Cayman Islands and the registered holder of approximately 41% of the issued share capital of the Company
“SBIIS CH”	SBIIS Capital Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong), as amended from time to time
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), as amended from time to time
“Share Purchase Agreement”	a share purchase agreement dated 31 January 2001 entered into between Goodwill, SBIIS CH and SIIS in respect of, amongst other things, the Acquisition
“Shareholders”	holders of Shares
“Shareholders Agreement”	a shareholders’ agreement dated 31 January 2001 entered into between Softbank Investment, Softbank Finance Corp., SIIS, SBIIS CH, e2-Capital, Goodwill and e2-Capital Securities
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“SIIS Guarantee”	a guarantee to be given by the Company to the MAS in relation to the obligations and liabilities of e2-Capital Pte Ltd under the MAS Investment Adviser Licence
“SIIS Indemnity”	a deed of indemnity to be entered into between SIIS and e2-Capital in respect of the obligations of e2-Capital under the e2-Capital Guarantee
“Softbank Finance Corp.”	Softbank Finance Corporation, a company incorporated under the laws of Japan and which holds the entire issued share capital of SB K&K and 85% of the issued share capital of Softbank Investment

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“Softbank Investment”	Softbank Investment Corporation, a company incorporated under the laws of Japan and which holds the entire issued share capital of SBIIH
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by SBIIH pursuant to the Subscription Agreement
“Subscription Agreement”	a subscription agreement dated 31 January 2001 entered into between SBIIH and SIIS in respect of the Subscription
“Subscription Shares”	132,653,061 new Shares which SBIIH agreed to subscribe for pursuant to the Subscription Agreement
“Transactions”	the entering into of the Share Purchase Agreement, the Shareholders Agreement and the Subscription Agreement in respect of the Acquisition and the Subscription and the transactions contemplated thereunder
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

In this circular, for reference only and unless otherwise specified, the translation between Hong Kong dollars and Japanese Yen is at HK\$6.6516=100 Yen and the translation between Hong Kong dollars and Singapore dollars is at S\$1=HK\$4.489.

EXPECTED TIMETABLE

The expected timetable is indicative only and is subject to change.

Latest time for lodging forms of proxy for the

Extraordinary General Meeting 10:30 a.m. on 28 March 2001

Extraordinary General Meeting to be held 10:30 a.m. on 30 March 2001

Expected date of completion of the Transactions on or about 3 April 2001



Softbank Investment International (Strategic) Limited

(incorporated in Hong Kong with limited liability)

Executive Directors:

Yoshitaka KITAO (*Chairman, President and Chief Executive Officer*)

Hiroyuki NAKANISHI (*Vice Chairman*)

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

Junichi GOTO

Katsuya KAWASHIMA

Steve, Ming Jang CHANG

Ricky, Kam Wai YU

Lincoln, Kam Yuen YU

Registered office

11th Floor

Man Yee Building

60-68 Des Voeux Road

Central

Hong Kong

Independent Non-executive Directors:

Peter, Hak Yung YIP

Arthur Minshiang WANG

14 March 2001

To the shareholders

and for information only, the option holders

Dear Sir/Madam,

**Major transaction
involving an acquisition of an interest in
the financial services business of
e2-Capital (Holdings) Limited, and
connected transactions involving
an issue of new shares to
Softbank Investment (International) Holdings Limited
and
the provision of a guarantee to
the Monetary Authority of Singapore and
an indemnity to e2-Capital (Holdings) Limited by
Softbank Investment International (Strategic) Limited**

**Formation of joint venture,
SBI e2-Capital Limited, between
Softbank Investment International (Strategic) Limited and
e2-Capital (Holdings) Limited**

1. INTRODUCTION

Reference is made to the Joint Announcement whereby SIIS and e2-Capital announced that on 31 January 2001:

- (a) SBIIS CH, a wholly owned subsidiary of SIIS, SIIS and Goodwill, an independent third party, have entered into the Share Purchase Agreement pursuant to which Goodwill agrees to sell and SBIIS CH agrees to purchase the Sale Shares, which represents 51% of the issued share capital of e2-Capital Securities, for a consideration of HK\$318.5 million. The Consideration will be satisfied by the payment of HK\$130 million in cash by SBIIS CH to Goodwill and the remaining balance of HK\$188.5 million will be satisfied by the issue by SIIS and delivery to Goodwill or its nominee of the Consideration Shares. The Consideration Shares represent approximately 10.2% of the existing share capital of SIIS, approximately 9.3% of the share capital of SIIS as enlarged by the Consideration Shares and approximately 8.7% of the share capital of SIIS as enlarged by the Consideration Shares and the Subscription Shares;
- (b) e2-Capital Securities will become a joint venture between SIIS and e2-Capital and, through the e2-Capital Subsidiaries, will carry on the business of providing financial and investment services. Accordingly, SIIS, SBIIS CH, e2-Capital and Goodwill have, inter alia, entered into the Shareholders Agreement which regulates the respective rights and obligations of SBIIS CH and Goodwill in respect of the management and operation of e2-Capital Securities; and
- (c) SIIS and SBIIH have entered into the Subscription Agreement pursuant to which SBIIH has agreed to subscribe for the Subscription Shares at an aggregate subscription price of HK\$130 million payable in cash. The Subscription Shares represent approximately 7% of the existing share capital of SIIS, approximately 6.6% of the share capital of SIIS as enlarged by the Subscription Shares and approximately 6% of the share capital of SIIS as enlarged by the Subscription Shares and the Consideration Shares.

Subsequent to the Joint Announcement, as a condition to approve the change in shareholding control of e2-Capital Pte Ltd from e2-Capital to e2-Capital Securities (details of which are set out on pages 15 to 16 of this circular), the MAS requires a guarantee to be provided by SIIS in respect of the financial position of, and obligations and liabilities of, e2-Capital Pte Ltd. Accordingly, SIIS will provide a guarantee to the MAS in respect of the obligations and liabilities of e2-Capital Pte Ltd in the form of the SIIS Guarantee on completion of the Acquisition.

SIIS and e2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of e2-Capital Pte Ltd should be determined by reference to their respective shareholdings in e2-Capital Securities. Accordingly, under the terms of the SIIS Indemnity, SIIS will indemnify e2-Capital for 51% of any claim under the e2-Capital Guarantee and, under the terms of the e2-Capital Indemnity, e2-Capital will indemnify SIIS for 49% of any claim under the SIIS Guarantee.

The Acquisition constitutes a major transaction for SIIS under Rule 14.09 of the Listing Rules. The Subscription constitutes a connected transaction for SIIS under Rule 14.26(3) of the Listing Rules and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS constitute connected transactions for SIIS under Rule 14.26(6) and Rule 14.26(7) of the Listing Rules. An EGM will be convened to approve the Share Purchase Agreement (including the provision of the SIIS Guarantee and the SIIS Indemnity), the Shareholders Agreement and the Subscription Agreement.

LETTER FROM THE BOARD

SBIIH, by virtue of its interest in the Subscription (the completion of which is a condition precedent to the completion of the Acquisition), is deemed to have a material interest in the Share Purchase Agreement pursuant to Rule 14.10 of the Listing Rules. SBIIH will, together with SB K&K, being an associate of SBIIH, abstain from voting on the resolution to approve the Acquisition (which shall also include SIIS' granting of the SIIS Guarantee and SIIS Indemnity) pursuant to the Share Purchase Agreement. SBIIH, being a substantial shareholder of SIIS and the subscriber under the Subscription Agreement, will, together with SB K&K, abstain from voting on the resolution to approve the Subscription Agreement.

Mr Arthur Minshiang Wang, an independent non-executive Director, has been appointed as the Independent Director to advise the Independent Shareholders in relation to the terms and conditions of the Subscription Agreement and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS. Pacific Challenge has been appointed as an independent financial adviser to advise the Independent Director in respect of the Subscription and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS. The EGM will be held for the Independent Shareholders to consider and approve (with or without amendments) the resolution in connection with the Acquisition (which shall include the granting of the SIIS Guarantee and SIIS Indemnity by SIIS) and the Subscription Agreement.

Being an independent non-executive director of both SIIS and e2-Capital, Mr Peter, Hak Yung Yip will not be advising the Independent Shareholders in relation to the terms and conditions of the Subscription Agreement and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS.

The purpose of this circular is to provide Shareholders with further information relating to the Transactions, to set out the advice of Pacific Challenge to the Independent Director and the recommendation of the Independent Director in respect of the Subscription and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS.

2. THE ACQUISITION

(A) The Share Purchase Agreement

Agreement Date

31 January 2001

Parties

- (1) Goodwill;
- (2) SBIIS CH; and
- (3) SIIS.

Goodwill is a wholly-owned subsidiary of e2-Capital and is the legal and beneficial owner of the entire issued share capital of e2-Capital Securities.

Save for shares in and representing 5.6% of the existing issued share capital of e2-Capital held by SIIS, each of SIIS, SBIIS CH and SB K&K is an independent third party not connected with any directors, chief executives or substantial shareholders of Goodwill or e2-Capital or any of their respective subsidiaries or any of their respective associates.

Major terms of the Share Purchase Agreement

Pursuant to the Share Purchase Agreement, Goodwill has agreed to sell and SBIIS CH has agreed to purchase the Sale Shares. The consideration payable by SIIS to e2-Capital for the Sale Shares is HK\$318.5 million, which will be satisfied by the payment of HK\$130 million in cash by SBIIS CH to Goodwill and the remaining balance of HK\$188.5 million will be satisfied by the issue and delivery by SIIS to Goodwill or its nominee of the Consideration Shares upon completion of the Acquisition.

The issue price of each Consideration Share shall be HK\$0.98 (representing a discount of approximately 15.51% to the closing price of HK\$1.16 per Share as quoted on the Stock Exchange on 29 January 2001 and a premium of approximately 30.67% of the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date), being the average of the closing price of the Shares on the last 30 calendar days immediately preceding the date of the Share Purchase Agreement.

Pursuant to the Share Purchase Agreement, Goodwill has agreed with SBIIS CH and SIIS not to, without the written consent of SIIS, dispose of or encumber any interest in any of the Consideration Shares or any other securities derived from the Consideration Shares for a period of six months after the date of completion of the Share Purchase Agreement.

The terms of the Share Purchase Agreement, including the Consideration, are based on arm's length negotiations between the parties to the Share Purchase Agreement, taking into account the prospects of e2-Capital Financial Services Group and the current trading price of the Shares. The Directors consider the terms of the Share Purchase Agreement to be fair and reasonable and are in the interest of SIIS.

Conditions of the Share Purchase Agreement

Completion of the Acquisition is conditional upon, inter alia, satisfaction of the following conditions:

- (a) completion of the corporate reorganisation of e2-Capital Securities to be implemented by Goodwill pursuant to which the e2-Capital Subsidiaries become the only subsidiaries of e2-Capital Securities. With the exception of e2-Capital Pte Ltd, which e2-Capital Securities will hold approximately 56% of its issued share capital, the e2-Capital Subsidiaries will become wholly-owned subsidiaries of e2-Capital Securities;
- (b) if so required by the Stock Exchange, the passing at a general meeting of e2-Capital of a resolution of the shareholders of e2-Capital to approve the Share Purchase Agreement, the Shareholders Agreement and the matters contemplated therein;
- (c) all relevant regulatory and government authorities granting approval to the change in control of e2-Capital Securities as a result of the transfer of the Sale Shares including, but without limitation, the approval from the Securities and Futures Commission;

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- (d) all filings with any relevant governmental or regulatory authorities and any relevant third parties which are required in respect of change of control of e2-Capital Securities or which are or may be appropriate for the performance of the obligations under the Share Purchase Agreement;
- (e) Goodwill being satisfied to its reasonable satisfaction that SIIS has sufficient funds to finance the business of SIIS and any subsidiary and any holding company of SIIS, provided that such financing required to satisfy Goodwill shall not exceed HK\$130 million and this condition precedent shall for the purposes of the Share Purchase Agreement be deemed to have been satisfied on satisfaction of the condition precedent set out in paragraph (f) below;
- (f) the completion of the subscription for cash by SBIIH of the Subscription Shares pursuant to the Subscription Agreement;
- (g) the passing at a general meeting of SIIS of:
 - (i) a resolution of the Independent Shareholders to approve the purchase by SBIIS CH of the Sale Shares from Goodwill;
 - (ii) a resolution of Independent Shareholders of SIIS to authorise the allotment and issue of the Consideration Shares; and
 - (iii) the passing of a resolution of the Independent Shareholders to the issue of the Subscription Shares to SBIIH and/or SB K&K;
- (h) the Listing Committee of the Stock Exchange granting approval to the listing of and permission to deal in the Consideration Shares and such listing and permission to deal not having subsequently been revoked prior to completion of the Share Purchase Agreement; and
- (i) the Listing Committee of the Stock Exchange granting approval to the listing of and permission to deal in the Subscription Shares and such listing and permission to deal not having subsequently been revoked prior to completion of the Share Purchase Agreement.

Pursuant to paragraph (c) above, SIIS has made an application to the Securities and Futures Commission for an approval to the change in control of e2-Capital Securities upon completion of the Acquisition. SIIS's application is currently being processed by the Securities and Futures Commission.

Completion of the Share Purchase Agreement

Completion of the Acquisition will take place immediately following fulfilment or waiver of the conditions referred to above, or such later date as Goodwill, SBIIS CH and SIIS may agree. It is expected that completion of the Acquisition will take place on or about 3 April 2001. In the event that the above conditions of the Share Purchase Agreement are not fulfilled or waived by 30 April 2001 or such later date as Goodwill, SBIIS CH and SIIS may agree, the Share Purchase Agreement will lapse. The Shareholders Agreement will also lapse.

(B) The Shareholders Agreement

Agreement Date

31 January 2001

Parties

- (1) Softbank Investment;
- (2) Softbank Finance Corp.;
- (3) SIIS;
- (4) SBIIS CH;
- (5) e2-Capital;
- (6) Goodwill; and
- (7) e2-Capital Securities.

Major terms of the Shareholders Agreement

Following completion of the Share Purchase Agreement, Goodwill and SBIIS CH will hold 49% and 51% respectively of the issued share capital of e2-Capital Securities. e2-Capital Securities will become a joint venture company between SIIS and e2-Capital and, through the e2-Capital Subsidiaries, will carry on the business of providing financial services such as investment advice, asset management, securities brokerage, commodities trading and securities trading, securities underwriting and placing, nominee services, proprietary trading and the provision of financial advisory services. Accordingly, SBIIS CH and Goodwill have agreed that their respective rights and obligations in respect of the management and operation of e2-Capital Securities shall be regulated by the provisions of the Shareholders Agreement.

Pursuant to the Shareholders Agreement, the board of directors of e2-Capital Securities shall comprise of five directors. SBIIS CH shall be entitled to appoint three directors and Goodwill shall be entitled to appoint two directors to the board of directors of e2-Capital Securities. Each of SBIIS CH and Goodwill agrees that without the prior written consent of the other, it will not dispose of or encumber its interest in e2-Capital Securities.

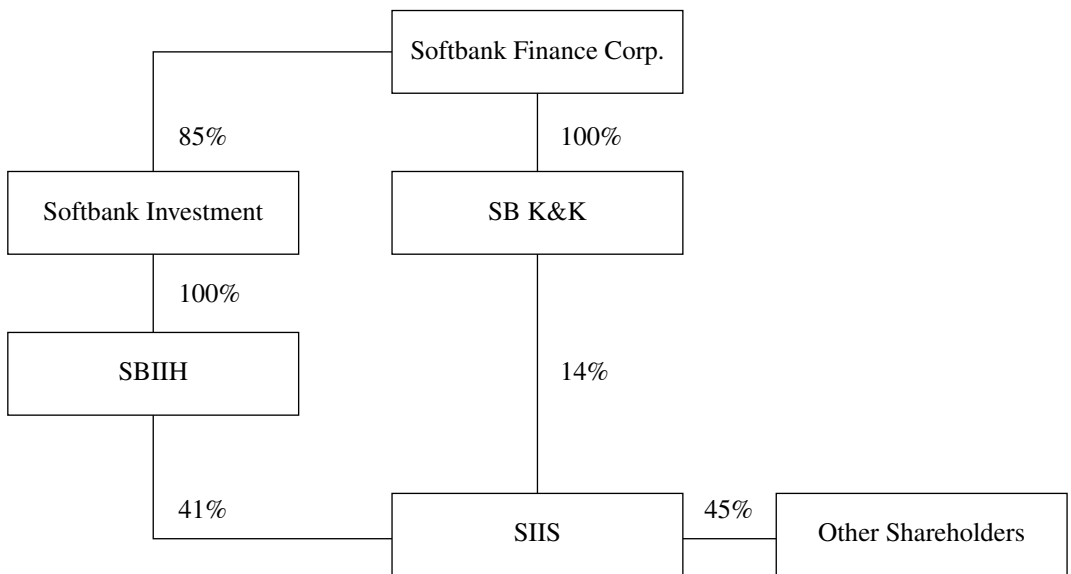
Following the Shareholders Agreement becoming effective, the company name of “e2-Capital Securities (Holdings) Limited” shall be changed to “SBI e2-Capital Limited” and e2-Capital Securities and its subsidiaries will be identified as “A Member of Softbank Investment Group”.

LETTER FROM THE BOARD

Softbank Investment and Softbank Finance Corp.

Softbank Investment is a company whose shares are listed on the Osaka Stock Exchange, Japan. Softbank Finance Corp. is a subsidiary of SOFTBANK CORP., a company listed on the Tokyo Stock Exchange, Japan. Softbank Investment has 100% interest in SBIIH, which in turn holds approximately 41% of SIIS. Softbank Finance Corp. has 100% interest in SB K&K, which in turn holds approximately 14% of SIIS. Softbank Finance Corp. also holds 85% interest in Softbank Investment. Softbank Investment and Softbank Finance Corp. have agreed to provide certain undertakings to e2-Capital as described below.

Set out below is the existing shareholding structure of SIIS:



Undertakings by Softbank Investment and Softbank Finance Corp.

Pursuant to the Shareholders Agreement, Softbank Investment and Softbank Finance Corp. jointly and severally undertake to e2-Capital that, to the extent permitted by the relevant contracts and by applicable laws governing the investment of funds under their respective management and as Softbank Investment and Softbank Finance Corp. shall determine as appropriate in its capacity as general manager of such funds, they will for the duration of the Shareholders Agreement procure any one or more of the investment funds under either or both of their management to subscribe for up to 10% of the enlarged issued share capital of e2-Capital (Japan) Limited, subject to a maximum investment of Japanese Yen 1 billion (equivalent to approximately HK\$66.52 million). e2-Capital (Japan) Limited is a company currently being established as an indirectly wholly-owned subsidiary of e2-Capital.

Each of Softbank Investment and Softbank Finance Corp. undertakes to the other parties to the Shareholders Agreement that for the duration of the Shareholders Agreement (a) it will give e2-Capital Securities a preferred status (but without any obligation to appoint) in relation to the provision of financial services required for any of its transactions outside of Japan; and (b) it will use its best endeavours to provide such necessary support (whether financial or otherwise) to e2-Capital Securities for the expansion of e2-Capital Securities' business into Europe and the United States.

Undertakings by SIIS

SIIS undertakes to SBIIS CH, Goodwill and e2-Capital Securities that for the duration of the Shareholders Agreement the management of any existing and future portfolio fund (including investments in listed companies) and buy-out fund of or managed by SIIS shall be carried out by e2-Capital Securities provided e2-Capital Securities has the relevant licences or approval to do so under the relevant jurisdiction.

SIIS will for the duration of the Shareholders Agreement consider engaging e2-Capital, in preference to other parties, in business activities beyond financial services, including, without limitation, consulting operation, property investment activities and bio-technology advisory work, whether to provide consulting or advisory services or to participate in other capacities.

For the purpose of expanding the business of e2-Capital Securities, SIIS will also consider providing funding to e2-Capital Securities. Such funding may take the form of equity investment or shareholders' loan or otherwise.

If SIIS engages in any of the aforementioned activities, such activities may constitute a connected transaction under chapter 14 of the Listing Rules. SIIS will comply with the Listing Rules if such transaction constitutes a connected transaction under the Listing Rules.

Conditions to the Shareholders Agreement

The Shareholders Agreement is conditional upon, inter alia,:

- (a) the completion of the Share Purchase Agreement;
- (b) the approval of the Shareholders (including, if necessary, the Independent Shareholders) at a general meeting of SIIS of the terms of the Shareholders Agreement.

The Shareholders Agreement will become effective on the date of satisfaction and/or waiver of all conditions referred to above, or such other date as agreed by SIIS and e2-Capital.

3. THE SUBSCRIPTION

The Subscription Agreement

Agreement Date

31 January 2001

Parties

- (1) SBIIH; and
- (2) SIIS.

Major terms of the Subscription Agreement

Pursuant to the Subscription Agreement, SBIIH agrees to subscribe in cash as principal for, and SIIS agrees to issue the Subscription Shares at a subscription price of HK\$0.98 per Subscription Share (representing a discount of approximately 15.51% to the closing price of HK\$1.16 per Share as quoted on the Stock Exchange on 29 January 2001, and a premium of approximately 30.67% to the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date). The Subscription Shares represent approximately 7% of the existing share capital of SIIS, approximately 6.6% of the share capital of SIIS as enlarged by the Subscription Shares and approximately 6% of the share capital of SIIS as enlarged by the Subscription Shares and the Consideration Shares.

The aggregate subscription price payable in respect of the Subscription Shares is HK\$130 million. It is intended that the net proceeds from the issue of the Subscription Shares to SBIIH pursuant to the Subscription Agreement will be used to part finance the purchase of the Sale Shares.

The terms of the Subscription Agreement have been reached following arm's length negotiations between SBIIH and SIIS. Each party to the Subscription Agreement will bear its own costs. The Directors consider the terms of the Subscription Agreement to be fair and reasonable and are in the interest of SIIS.

Conditions for completion of the Subscription Agreement

The Subscription Agreement is conditional upon, inter alia,:

- (a) neither the Stock Exchange nor the Securities and Futures Commission indicating that the listing of the Shares on the Stock Exchange will be or may be withdrawn or objected to;
- (b) listing of and permission to deal in all the Subscription Shares being granted by the Listing Committee of the Stock Exchange, and such permission and listing not subsequently being revoked;
- (c) approval by the Independent Shareholders of the transactions contemplated by the Subscription Agreement;
- (d) all relevant consents and approvals, including approval by the Independent Shareholders and the Stock Exchange (as appropriate), in respect of the allotment and issue of the Subscription Shares to SBIIH or otherwise as may be required for the transactions contemplated by the Subscription Agreement being obtained in accordance with Listing Rules and the articles of association of SIIS; and
- (e) the Share Purchase Agreement becoming unconditional (except for conditions (e) and (f) under the paragraph headed "Conditions of the Share Purchase Agreement" and the parties to the Share Purchase Agreement having confirmed that they are ready willing and able to proceed to the completion of the Share Purchase Agreement).

LETTER FROM THE BOARD

The completion of the Subscription Agreement will take place simultaneously with the completion of the Share Purchase Agreement. It is expected that completion of the Share Purchase Agreement will take place on or about 3 April 2001. In the event that the above conditions of the Subscription Agreement are not fulfilled or waived by 30 April 2001 or such later date as SBIH and SIIS may agree, the Subscription Agreement will lapse.

4. e2-CAPITAL PTE LTD - GUARANTEES AND INDEMNITIES

e2-Capital Pte Ltd is a registered investment adviser in Singapore and holds the MAS Investment Adviser Licence. e2-Capital Pte Ltd is engaged in the business of providing corporate finance advice and securities dealing.

Under the terms of the reorganisation contemplated by the Share Purchase Agreement (the completion of which is a condition precedent to completion of the Acquisition), e2-Capital will transfer its 56% interest in e2-Capital Pte Ltd to e2-Capital Securities. e2-Capital Pte Ltd will, therefore, become a non wholly-owned subsidiary of e2-Capital Securities. The other shareholders of e2-Capital Pte Ltd are Westcomb Profits Limited and a director of e2-Capital Pte Ltd who hold 40% and 4% of the issued share capital of e2-Capital Pte Ltd respectively. Westcomb Profits Limited holds its interest in e2-Capital Pte Ltd on behalf of certain members of the management of e2-Capital Pte Ltd.

As a requirement of the initial granting of the MAS Investment Adviser Licence, e2-Capital has given to the MAS a guarantee in the form of the e2-Capital Guarantee and currently ensures that e2-Capital Pte Ltd maintains sound liquidity and a sound financial position at all times and guarantees all present and future obligations and liabilities of e2-Capital Pte Ltd pursuant to the terms of the e2-Capital Guarantee. In addition, the Directors understand that Westcomb Profits Limited has also given a separate guarantee to the MAS in respect of all of the obligations of e2-Capital Pte Ltd which the Directors also understand is on terms similar to the e2-Capital Guarantee.

As a condition to approving the change in shareholding control of e2-Capital Pte Ltd from e2-Capital to e2-Capital Securities (which in turn is controlled indirectly by SIIS through SBIIS CH), the MAS requires a guarantee to be provided by SIIS in respect of the obligations and liabilities of e2-Capital Pte Ltd. Accordingly, SIIS will provide a guarantee to the MAS pursuant to which SIIS shall agree to ensure that e2-Capital Pte Ltd maintains sound liquidity and a sound financial position at all times and guarantee the obligations and liabilities of e2-Capital Pte Ltd in the form of the SIIS Guarantee on completion of the Acquisition. All in all, the MAS will have the benefit of three guarantees, being the e2-Capital Guarantee, the guarantee from Westcomb Profits Limited and the SIIS Guarantee.

The form of the SIIS Guarantee will be similar to the e2-Capital Guarantee and, the Directors understand, the guarantee given to the MAS by Westcomb Profits Limited. The Directors understand that these guarantees are almost identical because they are in a form stipulated by the MAS. The guarantees are unconditional and are, or will be, given in respect of all of the obligations of e2-Capital Pte Ltd. Furthermore, it is not intended that the SIIS Guarantee should replace either of the e2-Capital Guarantee or the guarantee given by Westcomb Profits Limited and both e2-Capital and Westcomb Profits Limited will continue to guarantee all of the obligations and liabilities of e2-Capital Pte Ltd concurrently with SIIS.

SIIS and e2-Capital have agreed between themselves that their respective responsibilities for the obligations and liabilities of e2-Capital Pte Ltd should be determined by reference to their respective shareholdings in e2-Capital Securities. Accordingly, under the terms of the SIIS Indemnity, SIIS will indemnify e2-Capital for 51% of any claim under the e2-Capital Guarantee and, under the terms of the e2-Capital Indemnity, e2-Capital will indemnify SIIS for 49% of any claim under the SIIS Guarantee.

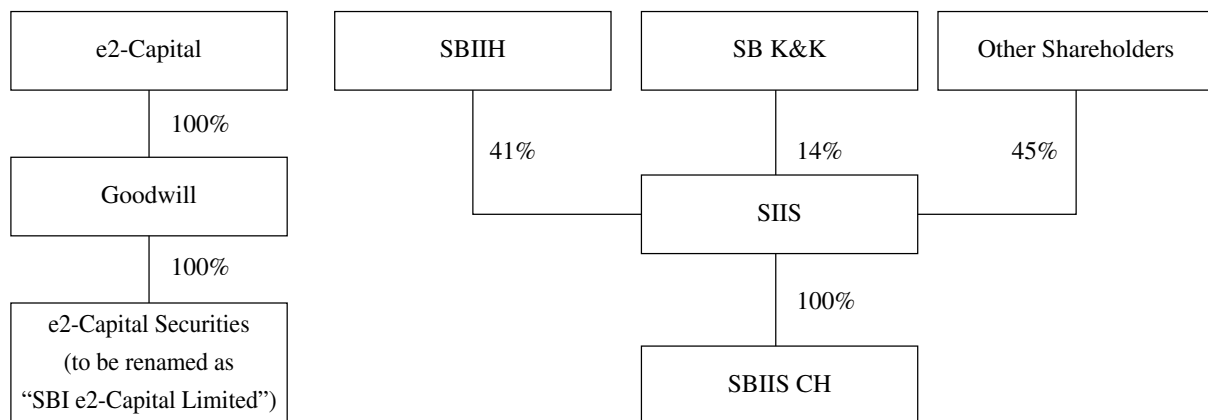
LETTER FROM THE BOARD

No indemnity will be given by Westcomb Profits Limited in respect of the liabilities of SIIS under the SIIS Guarantee and no indemnity will be given by SIIS in respect of the liabilities of Westcomb Profits Limited under its guarantee given to the MAS.

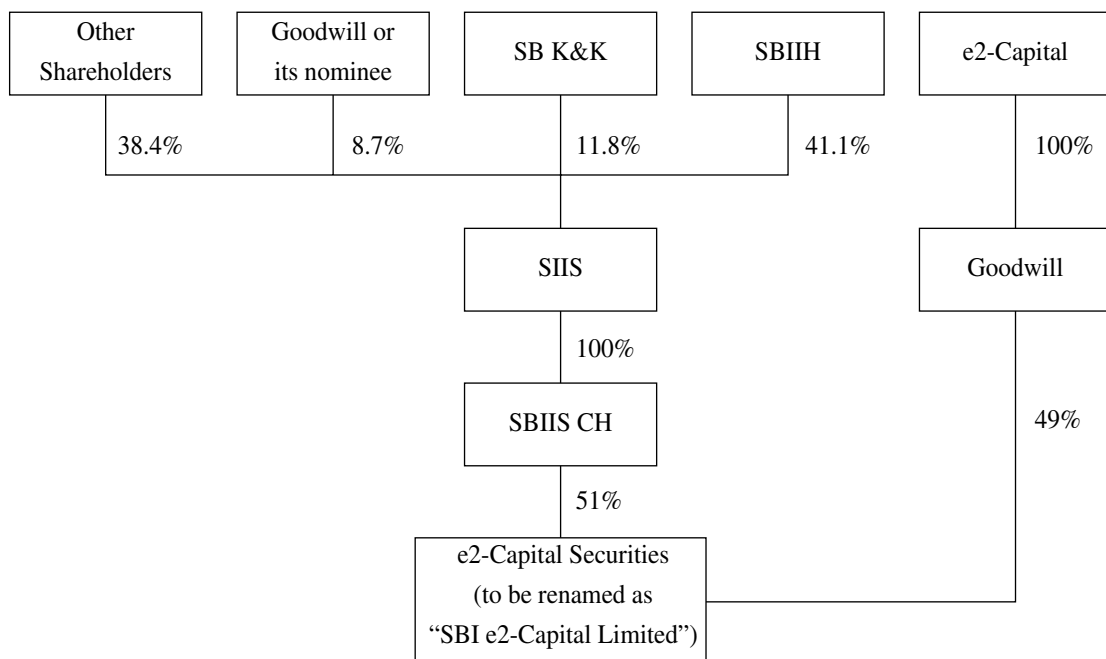
The granting of the SIIS Guarantee and the SIIS Indemnity is subject to the approval of the Independent Shareholders pursuant to the resolution to approve the Share Purchase Agreement.

5. SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION OF THE TRANSACTIONS

Set out below is the shareholding structure of e2-Capital Securities and SIIS before the completion of the Transactions:



Set out below is the shareholding structure of e2-Capital Securities and SIIS after completion of the Transactions:



6. INFORMATION ON e2-CAPITAL SECURITIES AND e2-CAPITAL FINANCIAL SERVICES GROUP

Business

e2-Capital Securities is an investment holding company. e2-Capital Financial Services Group is principally engaged in the business of providing financial services, including investment advice, asset management, securities brokerage, commodities trading and securities trading, securities underwriting and placing, nominee services, proprietary trading, portfolio management and management of buy-out funds in Asia and the United States.

Shareholding

e2-Capital Securities is currently wholly-owned by Goodwill and, following completion of the Acquisition, will become 49% owned by Goodwill and 51% owned by SBIIS CH. Please refer to paragraph 5 of this letter for further details.

Financial information

The audited financial results of e2-Capital Financial Services Group for the three years ended 31 December 2000 are set out in Appendix I to this circular. The acquisition by SIIS of 51% interest in e2-Capital Securities will result in the e2-Capital Financial Services Group being consolidated into the accounts of SIIS.

7. BUSINESS OF THE COMPANY

The Group is principally engaged in dyestuff distribution, household fabric and garment manufacturing and property and other investments, such as securities, and is in the process of diversifying its business activities to include Internet and Internet-related investments.

In addition to identifying and evaluating new investment opportunities, devising e-business strategies and converting existing off-line businesses into on-line businesses and implementing successful overseas Internet business models locally in Hong Kong; the diversification of the Group's business is also expected to include the disposal of non-core assets and businesses.

Whilst the Directors have determined an asset disposal programme in respect of SIIS' non-core assets and businesses with a view to disposing such assets and businesses over the coming 12 months, SIIS is not currently in a position to disclose the nature of the assets or the businesses concerned. The Directors are of the opinion that such information is commercially sensitive and it would be premature to release such information with the programme still in a relatively early stage of implementation. However, the asset disposal programme will be in line with SIIS' diversification into Internet and Internet related businesses. SIIS will disclose by way of announcement, as and when appropriate and in accordance with the Listing Rules, details of the non-core assets and businesses which are to be disposed of under the asset disposal programme once the terms for their disposal are more advanced.

The Group is re-engineering its existing businesses and in order to minimise losses from its existing operations, the Group will streamline its existing businesses. The Directors believe that the future cash flow distribution from the e2-Capital Financial Services Group should help to enhance the financial position of the Group.

8. REASONS FOR ENTERING INTO THE TRANSACTIONS

The Directors are of the view that the Transactions will enable SIIS to diversify its business into providing financial services and to enlarge the revenue base of SIIS. Furthermore, the Transactions are expected to improve the financial position and cashflow of the Group as demonstrated by the latest audited financials of the e2-Capital Financial Services Group. The audited net profit of the e2-Capital Financial Services Group for the year ended 31 December 2000 was approximately HK\$102.95 million.

Furthermore, the e2-Capital Financial Services Group provides comprehensive financial services, including securities brokerage and management of buy-out funds, in particular, to hi-tech companies and it is expected that the Acquisition will compliment the business objectives of the Group.

9. EXTRAORDINARY GENERAL MEETING

You will find on pages 93 to 95 of this circular a notice of the EGM to be held at the Chater Room III, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Friday, 30 March 2001 at 10:30 a.m. for the purpose of considering and, if thought fit, approving the Transactions and the issue and allotment of the Consideration Shares and the Subscription Shares and the provision of the SIIS Guarantee and the SIIS Indemnity by SIIS. SBIIH and SB K&K shall abstain from voting on the resolutions to approve these matters at the EGM.

A form of proxy for use at the EGM is enclosed. If you do not intend to be present at the meeting, you are requested to complete this form of proxy in accordance with the instructions printed thereon and deposit the same at the registered office of the Company at 11th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting in person should you so desire.

10. APPLICATION FOR LISTING

The Company has made an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Consideration Shares and Subscription Shares on the Stock Exchange.

11. ADDITIONAL INFORMATION

The Independent Director has been appointed by the Board to advise the Independent Shareholders and Pacific Challenge has been appointed by SIIS to advise the Independent Director in respect of the Subscription and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Director and the letter from Pacific Challenge as set out in this circular. As set out in the letter from the Independent Director, based on the advice of Pacific Challenge, the Independent Director considers the terms of the Subscription Agreement and the granting of the SIIS Guarantee and the SIIS Indemnity fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the Subscription Agreement and the granting of the SIIS Guarantee and the SIIS Indemnity are in the interest of the Company and the Shareholders as a whole.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Yoshitaka Kitao
Chairman, President and Chief Executive Officer



Softbank Investment International (Strategic) Limited
(incorporated in Hong Kong with limited liability)

To the Independent Shareholders

14 March 2001

Dear Sir or Madam,

Connected transactions

- (1) Issue of new shares in Softbank Investment International (Strategic) Limited to and subscription for cash by Softbank Investment (International) Holdings Limited**
- (2) Provision of a guarantee to the Monetary Authority of Singapore and an indemnity to e2-Capital (Holdings) Limited by Softbank Investment International (Strategic) Limited**

I have been appointed as the Independent Director to advise the Independent Shareholders in respect of (1) the Subscription Agreement, pursuant to which Softbank Investment (International) Holdings Limited (“SBIH”) has agreed to subscribe in cash for 132,653,061 newly issued shares of the Company at a price of HK\$0.98 per share for an aggregate subscription price of HK\$130 million, and (2) the granting of the SIIS Guarantee and the SIIS Indemnity by SIIS. SBIH owns approximately 41% of the issued share capital of the Company. Details of the Subscription Agreement and the SIIS Guarantee and SIIS Indemnity are set out in the “Letter from the Board” section on pages 13 to 15 and 15 to 16, respectively, of the circular dated 14 March 2001 to the Shareholders (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the letter of advice and recommendation from Pacific Challenge in respect of the Subscription Agreement and the SIIS Guarantee and SIIS Indemnity as set out on pages 21 to 32 of the Circular. Having taken into account the advice of Pacific Challenge, I consider that the Subscription and the granting of the SIIS Guarantee and SIIS Indemnity by SIIS are in the interests of the Company and the Shareholders as a whole and that the terms of the Subscription, the SIIS Guarantee and the SIIS Indemnity are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, I recommend the Independent Shareholders vote in favour of the resolution to be proposed at the EGM to approve the Subscription contemplated under the Subscription Agreement and the granting of the SIIS Guarantee and the SIIS Indemnity pursuant to the terms of the Share Purchase Agreement.

Yours faithfully,
Arthur Minshiang Wang
Independent Director

PACIFIC CHALLENGE

PACIFIC CHALLENGE CAPITAL LIMITED

2201-6, 22ND FLOOR, WORLDWIDE HOUSE
19 DES VOEUX ROAD, CENTRAL, HONG KONG
TEL: (852) 2868 2828
FAX: (852) 2868 0390

14 March 2001

The Independent Director
Softbank Investment International (Strategic) Limited
11/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Dear Sirs,

Connected transactions

- (1) Issue of new shares in Softbank Investment International (Strategic) Limited to and subscription for cash by Softbank Investment (International) Holdings Limited**
- (2) Provision of a guarantee to the Monetary Authority of Singapore and an indemnity to e2-Capital (Holdings) Limited by Softbank Investment International (Strategic) Limited**

INTRODUCTION

We refer to the announcement (the “Announcement”) jointly made by Softbank Investment International (Strategic) Limited (the “Company”) and e2-Capital (Holdings) Limited (“e2-Capital”) dated 31 January 2001 in relation to, inter alia, the proposed acquisition (the “Acquisition”) by the Company of an interest in the financial services business of e2-Capital and the proposed issue of new shares in the Company (“Subscription Shares”) to Softbank Investment (International) Holdings Limited (“SBIH”). Capitalised terms used in this letter shall have the same meanings ascribed to them in the circular dated 14 March 2001 (the “Circular”) of which this letter forms part unless the context otherwise requires.

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, Goodwill, SBIH CH and the Company have entered into the Share Purchase Agreement pursuant to which Goodwill agrees to sell and SBIH CH agrees to purchase 51% of the issued share capital of e2-Capital Securities for a consideration of HK\$318.5 million (the “Consideration”). The Consideration shall be satisfied by the payment of HK\$130 million in cash by SBIH CH to Goodwill and the remaining balance of HK\$188.5 million will be satisfied by the issue and delivery by the Company to Goodwill or its nominee of 192,346,938 Consideration Shares. In order to meet the funding requirement of the cash portion of the Consideration, SBIH and the Company have entered into the Subscription Agreement pursuant to which SBIH agrees to subscribe in cash for 132,653,061 Subscription Shares at an aggregate subscription price of HK\$130 million. The Subscription Shares represent approximately 7% of the existing issued share capital of the Company, approximately 6.6% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and

approximately 6% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Consideration Shares. The entering into of the Subscription Agreement between SBIH and the Company constitutes a connected transaction for the Company under Rule 14.26(3) of the Listing Rules. The EGM will be convened to approve, inter alia, the Share Purchase Agreement and the Subscription Agreement, in relation to which SBIH, being a major shareholder of the Company together with SB K&K (being an associate of SBIH), shall abstain from voting at the resolution to approve the Subscription Agreement.

Furthermore, as referred to in the letter from the Board set out on pages 6 to 19 of the Circular, e2-Capital Pte Ltd, a non wholly-owned subsidiary of e2-Capital Securities, is a registered investment adviser in Singapore and holds the MAS Investment Adviser Licence. As a requirement of the granting of the MAS Investment Adviser Licence, e2-Capital has given the e2-Capital Guarantee which guarantees the obligations and liabilities of e2-Capital Pte Ltd. Furthermore, as a condition to approving the change in shareholding control of e2-Capital Pte Ltd from e2-Capital to e2-Capital Securities (which in turn is controlled indirectly by the Company through SBIIS CH) as a result of which the Company, through SIIS CH, shall have an effective beneficial interest of approximately 28.6% in e2-Capital Pte Ltd, the MAS requires a guarantee to be provided by the Company in respect of the obligations and liabilities of e2-Capital Pte Ltd. Accordingly, the Company has agreed to provide a guarantee in respect of the obligations and liabilities of e2-Capital Pte Ltd in the form of the SIIS Guarantee, which is not intended to replace the e2-Capital Guarantee and that both e2-Capital and the Company will act as guarantors in respect of the obligations and liabilities of e2-Capital Pte Ltd. In addition, the Company has agreed to execute the SIIS Indemnity pursuant to which the Company will be responsible for up to 51% of any amount which e2-Capital is required to pay under the e2-Capital Guarantee (insofar as the amount payable by e2-Capital does not arise as a result of the default of e2-Capital) and e2-Capital has also agreed to execute the e2-Capital Indemnity pursuant to which e2-Capital will be responsible for up to 49% of any amount which the Company is required to pay under the SIIS Guarantee (insofar as the amount payable by the Company does not arise as a result of the default of the Company). The transactions contemplated under the SIIS Guarantee and the SIIS Indemnity constitute connected transactions under Chapter 14 of the Listing Rules and shall require the approval of the Independent Shareholders at the EGM.

Mr Arthur Minshiang Wang, being an independent non-executive Director of the Company, has been appointed as the Independent Director to advise the Independent Shareholders in relation to the terms and conditions of (i) the Subscription Agreement and (ii) the SIIS Guarantee and the SIIS Indemnity. We, Pacific Challenge, have been appointed by the Company to advise the Independent Director in relation to the resolution to be proposed at the EGM to consider and, if thought fit, approve (i) the Subscription Agreement and (ii) the SIIS Guarantee and the SIIS Indemnity. This letter contains our advice to the Independent Director as to whether or not (i) the Subscription Agreement and (ii) the SIIS Guarantee and the SIIS Indemnity are in the interests of the Company and the Shareholders and that the terms and conditions of (i) the Subscription Agreement and (ii) the SIIS Guarantee and the SIIS Indemnity are fair and reasonable so far as the Independent Shareholders are concerned. In formulating our opinion and recommendation, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and which the Directors consider to be complete and relevant. We have also assumed that all statements, information and representations made or referred to in the Circular were true and correct in all respects at the time they were made and continued to be true and correct in all respects as at the date of despatch of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular are reasonably made after due and careful enquiry and are based

on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representation provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular. We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to suspect that any material information has been withheld by the Company. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

In formulating our opinion and recommendation, we have not considered the taxation implication on the Shareholders as a result of the approval of (i) the Subscription Agreement and/or (ii) the SIIS Guarantee and the SIIS Indemnity by the Independent Shareholders, since these are particular to the individual circumstances of any Shareholder. It is emphasized that we will not accept responsibility for any tax effects on or liabilities of any person resulting from (i) the Subscription Agreement and/or (ii) the SIIS Guarantee and the SIIS Indemnity being approved by the Independent Shareholders, and any Shareholder who is in any doubt about his/her own tax position should consult his/her own professional adviser(s).

THE SUBSCRIPTION AGREEMENT

Principal factors and reasons considered

In arriving at our recommendation in relation to the Subscription Agreement, we have considered the following principal factors and reasons:—

1. *Reasons for entering into the Subscription Agreement*

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, the Subscription Agreement was entered into between SBIH and the Company on 31 January 2001 pursuant to which SBIH shall agree to subscribe in cash for 132,653,061 Subscription Shares at a price of HK\$0.98 per Subscription Share, as a result of which aggregate proceeds of HK\$130 million shall be raised which will be used to finance the cash portion of the Consideration payable by SBIIS CH, a wholly-owned subsidiary of the Company, to Goodwill pursuant to the Share Purchase Agreement. Completion of the Subscription Agreement will take place simultaneously with the completion of the Share Purchase Agreement. Furthermore, pursuant to the Shareholders Agreement, Softbank Investment and Softbank Finance Corp. (being the ultimate controlling shareholders of the Company) have undertaken to, inter alia, give e2-Capital Securities (which is a member of the e2-Capital Financial Services Group) a preferred status (but without any obligation to appoint) in relation to the provision of financial services required in any of its transactions outside Japan. The Directors are of the view that the transactions contemplated under the Share Purchase Agreement, the Shareholders Agreement and the Subscription Agreement will enable the Company to diversify its business into providing financial services and to enlarge its revenue base, and will improve the financial position and cashflow of the Group which are further referred to in our discussions in the paragraph headed “Financial effects on the Company” below.

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, the Consideration payable by SBIIS CH to Goodwill pursuant to the Share Purchase Agreement is HK\$318.5 million, of which HK\$130 million will be satisfied by way of cash and the remaining

LETTER FROM PACIFIC CHALLENGE CAPITAL LIMITED

balance of HK\$188.5 million will be satisfied by way of an issue of 192,346,938 Consideration Shares by the Company to Goodwill at a price of HK\$0.98 per Consideration Share. In this regard, we have enquired with the Directors and were informed that the aggregate cash balances of Group as at the date of execution of the Share Purchase Agreement was of an amount not exceeding HK\$100 million which means that it would be difficult for the Group to satisfy in full the Consideration payable to Goodwill pursuant to the Share Purchase Agreement out of its own funding resources. We also consider that it is difficult in the present stock market sentiment to raise funds from the market, by way of equity placings, rights issues or the issuance of other convertible instruments, for an amount comparable with the size of the cash portion of the Consideration of HK\$130 million which falls to be payable by SBIIS CH to Goodwill as referred to above. Furthermore, we consider that the entering into of the Subscription Agreement between SBIIH and the Company demonstrates the support of Softbank Investment and Softbank Finance Corp., through SBIIH, to the future growth and development potential of the Company in view of its new investment in the e2-Capital Financial Services Group following the completion of, inter alia, the Share Purchase Agreement.

Based on the above, we are of the view that the entering into of the Subscription Agreement between SBIIH and the Company to be in the interests of the Company and the Shareholders.

2. *Issue price of the Subscription Shares*

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, 132,653,061 Subscription Shares will be issued and allotted by the Company to SBIIH at an issue price of HK\$0.98 per Subscription Share. Such an issue price represents a discount of approximately 15.51% to the closing price of the Shares of HK\$1.16 as quoted on the Stock Exchange on 29 January 2001, being the last trading day of the Shares on the Stock Exchange prior to the release of the Announcement.

We have made references to the price performances of the Shares in each of the six months prior to the issue and despatch of the Circular (the “Ensuing Period”) and during the period from 1 March 2001 up to and including the Latest Practicable Date as follows:—

Month/Period	Highest closing price HK\$	Lowest closing price HK\$	Average daily closing price HK\$
<i>2000</i>			
September	1.43	0.71	1.043
October	0.79	0.49	0.633
November	1.55	0.84	1.275
December	1.28	0.89	1.083
<i>2001</i>			
January	1.16	0.88	0.982 ^(*)
February	1.06	0.89	1.008
1 March 2001 up to and including the Latest Practicable Date	0.91	0.73	0.800

(*) *Excluding those periods during which trading in Shares on the Stock Exchange was suspended*

Source: Bloomberg

LETTER FROM PACIFIC CHALLENGE CAPITAL LIMITED

Based on the above, the Shares recorded a highest closing price of HK\$1.55 and a lowest closing price of HK\$0.49 during the Ensuing Period, with an average daily closing price of the Shares of approximately HK\$1.004 during the Ensuing Period. Furthermore, the average daily closing price of the Shares during the period from 1 March 2001 up to and including the Latest Practicable Date was approximately HK\$0.800. The issue price per Subscription Share of HK\$0.98 represents (i) a discount of approximately 2.39% to the average daily closing price of the Shares of approximately HK\$1.004 during the Ensuing Period; (ii) a premium of approximately 22.5% to the average daily closing price of the Shares of approximately HK\$0.800 during the period from 1 March 2001 up to and including the Latest Practicable Date; and (iii) a premium of approximately 30.7% to the closing price of the Shares of HK\$0.75 as at the Latest Practicable Date. The issue price per Subscription Share of HK\$0.98 also represents a discount of approximately 7.5% to the average daily closing price of the Shares of approximately HK\$1.059 for a period of 10 trading days up to and including 31 January 2001, being the date of execution of the Share Purchase Agreement.

We have enquired with the Directors and were informed that the issue price per Subscription Share of HK\$0.98 was determined and agreed between SBIH and the Company based on arm's length negotiations and has taken into account, inter alia, the recent price performances of the Shares on the Stock Exchange. Based on the above and except for the premium of the issue price of the Subscription Shares over and above the average daily closing price of the Shares during the period from 1 March 2001 up to and including the Latest Practicable Date as noted above which we consider is attributable to the weak stock market sentiment in Hong Kong affecting price performance of the Shares in March 2001, we consider that the issue price of HK\$0.98 per Subscription Share is generally comparable to the statistics of the Company's share price performances as referred to above which we consider to be fair and reasonable.

We have also compared the issue price of the Subscription Shares of HK\$0.98 with the proforma unaudited adjusted consolidated net tangible asset value of the Company of approximately HK\$0.19 per Share after the completion of the Subscription Agreement (which is in turn conditional upon, inter alia, the completion of the Share Purchase Agreement), as referred to Appendix II to the Circular. We noted that the issue price of the Subscription Shares represents a premium of approximately 416% over and above such resultant proforma unaudited adjusted consolidated net tangible asset value per Share. In this regard, we noted that the audited consolidated net tangible asset value of the Company as at 30 June 2000 was approximately HK\$0.18 per Share (which was calculated on the basis of the Company's audited consolidated net tangible assets of approximately HK\$344.1 million and 1,885,915,878 Shares in issue as at 30 June 2000 as referred to in Appendix II to the Circular), whilst the average daily closing prices of the Shares in July 2000 and August 2000 were approximately HK\$1.71 and HK\$1.40, respectively, and the average daily closing prices of the Shares during the Ensuing Period (covering the six month period from September 2000 to February 2001 as referred to above) and during the period from 1 March 2001 up to and including the Latest Practicable Date were approximately HK\$1.004 and approximately HK\$0.800, respectively. Therefore, we are of the view that since 30 June 2000 and up to and including the Latest Practicable Date, the Shares have historically been trading at a market price level which represented a significant premium of between 4.4 times and 9.5 times over and above the underlying net asset backing per Share since 30 June 2000 as referred to above and, accordingly, it is reasonable for the issue price of the Subscription Shares to be determined at a significant premium to the underlying net asset backing per Share given that the basis of determination of the issue price of HK\$0.98 per Subscription Share has taken into account, inter alia, the recent price performances of the Shares on the Stock Exchange as referred to above. Furthermore, we consider the issue price of HK\$0.98 per Subscription Share to be acceptable for reasons that (i) after the completion of the Subscription Agreement (which is in turn conditional upon,

LETTER FROM PACIFIC CHALLENGE CAPITAL LIMITED

inter alia, the completion of the Share Purchase Agreement pursuant to which Goodwill would become a Shareholder as a result of the Consideration Shares issued and allotted to it), SBIIH and Goodwill would rank pari passu in all respects in view of their beneficial equity interests in the Subscription Shares and the Consideration Shares, respectively. Therefore, it follows that the issue price of the Subscription Shares should be determined at a level which is equal to the issue price of the Consideration Shares, being HK\$0.98 per Consideration Share, so as to reflect the equitable entitlements of SBIIH and Goodwill as Shareholders; and (ii) the issue price of the Subscription Shares of HK\$0.98 would result in the issue of a smaller number of Subscription Shares by the Company than would have been the case had the issue price of the Subscription Shares been determined at a lower level, such as at a level comparable to the resultant proforma adjusted unaudited consolidated net tangible asset value per Share, as a result of which there would be a smaller dilution effect on the interests of the Independent Shareholders than that as referred to in the paragraph headed “Resultant shareholding structure of the Company” below.

3. *Resultant shareholding structure of the Company*

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, the shareholding structures of the Company before and after the completion of the Subscription Agreement (which in turn is conditional upon, inter alia, the completion of the Share Purchase Agreement) are as follows:—

	Existing shareholding structure	Resultant shareholding structure
SBIIH	41%	41.1%
SB K&K	14%	11.8%
	55%	52.9%
Goodwill	—	8.7%
Independent Shareholders	45%	38.4%
Total	100%	100%

We noted that, as a result of the completion of the Subscription Agreement, there would be a dilution in the interests of the Independent Shareholders (none of whom, as we were informed by the Directors, is a substantial Shareholder having a beneficial interest in excess of 10% in the issued share capital of the Company) by approximately 6.6% from approximately 45% in the existing issued share capital of the Company to approximately 38.4% in the enlarged issued share capital of the Company as referred to above. In this regard, we also wish to draw the attention of the Independent Shareholders to the fact that although SBIIH shall subscribe for 132,653,061 newly issued Subscription Shares pursuant to the Subscription Agreement, the aggregate beneficial interests of SBIIH and its associate, SB K&K, would also be diluted by approximately 2.1% from approximately 55% in the existing issued share capital of the Company to approximately 52.9% in the enlarged issued share capital of the Company as referred to above. We consider that such dilution effects to the Independent Shareholders as well as to SBIIH and SB K&K are mainly attributable to the issue and allotment of the 192,346,938 Consideration Shares by the Company to Goodwill pursuant to the Share Purchase Agreement (to which the completion of the Subscription Agreement is subject), as a result of which Goodwill would

have a resultant beneficial interest of approximately 8.7% in the enlarged issued share capital of the Company as referred to above. In this regard, we consider that given the mechanics of the transactions contemplated under the Share Purchase Agreement, the dilution effect on the Independent Shareholders' interests in the Company as a result of the completion of the Subscription Agreement is reasonable.

4. *Financial effects on the Company*

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, the principal business activity of the Company is investment holding and the Group is principally engaged in dyestuff distribution, household fabrics, garment manufacturing as well as property and other investments, and the Group is in the process of diversifying its business activities to include finance, technology and Internet-related investments. On the other hand, the e2-Capital Financial Services Group is principally engaged in the business of providing financial services, including investment banking, securities brokerage, portfolio management and management of buy-out funds in Asia and the United States of America.

As referred to in the paragraph headed "Reasons for entering into the Subscription Agreement" above, the Directors are of the view that the transactions contemplated under the Share Purchase Agreement, the Shareholders Agreement and the Subscription Agreement will enable the Company to diversify its business into providing financial services and to enlarge its revenue base, and will improve the financial position and cashflow of the Group. In this regard, we have reviewed the following financial effects on the Company as a result of the completion of the Subscription Agreement, which is in turn conditional upon, inter alia, the completion of the Share Purchase Agreement:—

On earnings

For the fifteen month period ended 30 June 2000, the Company reported a consolidated turnover of approximately HK\$203.9 million and a consolidated loss attributable to Shareholders of approximately HK\$29.8 million which were entirely attributable to the Group's pre-existing businesses of dyestuff distribution, household fabrics, garment manufacturing as well as property investments in view of the fact that the Group's Internet-related investments and business operations only commenced as recently as March 2000. We were further informed by the Directors that the Group is currently in the process of restructuring its assets which include, among other things, the disposals of certain non-profitable pre-existing businesses (in respect of which the Directors believe loss on disposal may be generated in the event of disposal for consideration below the underlying net book values of these investments) and the diversification into Internet-related investment opportunities, the implementation of e-business strategies and the conversion of the Group's existing off-line businesses into on-line businesses, which are considered by the Directors to be complementary with the experience and expertise of the Directors and the Company's new senior management in these areas (being the existing executive Directors appointed to the board of the Company in March 2000 and who are representatives nominated by SBIH) after SBIH completed its acquisition of a controlling interest in the Company in March 2000. We were further informed by the Directors that such an asset restructuring exercise is aimed to improve future financial returns to the Shareholders in the longer term.

As referred to in Appendix I to the Circular, the audited net profit after tax credit of the e2-Capital Financial Services Group for the year ended 31 December 1999 was approximately

HK\$6.6 million and the audited net profit after tax and before payment of dividend of the e2-Capital Financial Services Group for the year ended 31 December 2000 was approximately HK\$103.0 million, which recorded a significant improvement from the audited losses before and after tax of the e2-Capital Financial Services Group for the year ended 31 December 1998 of approximately HK\$56.2 million. We have reviewed the audited consolidated financial statements of the e2-Capital Financial Services Group for the year ended 31 December 2000 and noted that the significant improvement in its financial results for the year then ended was mainly attributable to (i) gains on investments in the shares of Hong Kong Exchange and Clearing Limited (“HKEC Shares”) of approximately HK\$59 million; (ii) the increase in brokerage income by approximately 130% during the year ended 31 December 2000 when compared with the previous year; and (iii) the increase in advisory fees and other commission income by approximately 24 times during the year ended 31 December 2000 when compared with the previous year, in respect of which we were informed by the Directors that the increases in brokerage income, advisory fees and other commission income are attributable to the expansion of the business operations of the e2-Capital Financial Services Group in March 2000. We have discussed with the Directors and consider that although the above investment gains of the e2-Capital Financial Services Group on HKEC Shares for the year ended 31 December 2000 was an exceptional profit not arising from its normal business activities of securities brokerage and corporate advisory services, however, the brokerage income, corporate advisory fees and other commission income have contributed to approximately HK\$44 million of the earnings of the e2-Capital Financial Services Group for the year then ended which already exceeded the corresponding earnings of the e2-Capital Financial Services Group of approximately HK\$6.6 million for the year ended 31 December 1999. Based on the foregoing, we consider that the securities brokerage and corporate advisory businesses of the e2-Capital Financial Services Group would form a core business which is capable of generating recurrent sources of revenue and earnings in future years. Therefore, we consider that upon the formulation and implementation of appropriate business plans by the Company and Goodwill for the future growth and development of the e2-Capital Financial Services Group such as the development of portfolio management and buy-out funds and the strengthening of its existing business operations in securities brokerage and financial advisory services, there may be a further improvement in the future earnings of the e2-Capital Financial Services Group as a result of which the Group’s financial results would benefit by being able to consolidate future earnings contributions from the e2-Capital Financial Services Group, and thereby enabling the Group to improve future financial returns to the Shareholders.

On net asset value

As referred to in Appendix II to the Circular, upon the completion of the Subscription Agreement and the Acquisition, the proforma unaudited adjusted consolidated net tangible assets of the Company would be increased by approximately 21.0% to approximately HK\$416.2 million from the Company’s audited consolidated net tangible assets as at 30 June 2000 of approximately HK\$344.1 million. Based on the 2,210,915,877 Shares to be in issue after the completion of the Subscription Agreement and the Share Purchase Agreement and which shall have accordingly taken into account the 132,653,061 Subscription Shares and the 192,346,938 Consideration Shares falling to be issued by the Company in relation thereto, the proforma unaudited adjusted consolidated net tangible asset value per Share would be approximately HK\$0.19, which represents an increase of approximately 5.6% from the Company’s audited consolidated net tangible asset value per Share of approximately HK\$0.18 which is calculated on the basis of 1,885,915,878 Shares in issue as at the Latest Practicable Date.

Based on the above, we consider that the increase in the Company's net asset value per Share as a result of the completion of the Subscription Agreement to be in the interests of the Shareholders as a whole.

On gearing

We consider that, in view of the fact that (i) the Group does not incur any external borrowings in deriving the necessary cash resources for the purpose of meeting the cash portion of the Consideration payable by SBIIS CH to Goodwill pursuant to the Share Purchase Agreement; and (ii) no part of the Consideration payable by SBIIS CH to Goodwill pursuant to the Share Purchase Agreement shall be satisfied by way of an issue of a debt instrument, there would not be any effect on the existing gearing level of the Group as a result of the completion of the Subscription Agreement.

Recommendation

Having taken into account the principal factors and reasons referred to above, we consider that the terms and conditions of the Subscription Agreement to be in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we would advise the Independent Director to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to consider and, if thought fit, approve the Subscription Agreement.

THE SIIS GUARANTEE AND THE SIIS INDEMNITY

Principal factors and reasons considered

In arriving at our recommendation in relation to the SIIS Guarantee and the SIIS Indemnity, we have considered the following principal factors and reasons:

1. *Reasons for entering into the SIIS Guarantee and the SIIS Indemnity*

As referred to in the letter from the Board set out on pages 6 to 19 of the Circular, e2-Capital Pte Ltd is a registered investment adviser in Singapore and holds the MAS Investment Adviser Licence. We were informed by the Directors that the principal business activities of e2-Capital Pte Ltd include the provision of corporate finance advice and securities dealings. As a requirement of the granting of the MAS Investment Adviser Licence, e2-Capital has given the e2-Capital Guarantee which guarantees the obligations and liabilities of e2-Capital Pte Ltd and which takes effect from 23 October 2000. However, as part of the reorganization of the e2-Capital Financial Services Group contemplated by the Share Purchase Agreement, e2-Capital has transferred its interest in 56% of the entire issued share capital of e2-Capital Pte Ltd to e2-Capital Securities, which in turn will be controlled indirectly by the Company through SBIIS CH. Therefore, the MAS requires a guarantee to be provided by the Company in respect of the obligations and liabilities of e2-Capital Pte Ltd in the form of the SIIS Guarantee. This guarantee is however not intended to replace the e2-Capital Guarantee and that both e2-Capital and the Company will act as guarantors in respect of the obligations and liabilities of e2-Capital Pte Ltd.

We have discussed with and were informed by the Directors that as a result of the reorganization of the e2-Capital Financial Services Group contemplated by the Share Purchase Agreement and the completion thereof, the Company shall have an effective beneficial interest of approximately 28.6% in e2-Capital Pte Ltd whilst e2-Capital shall have an effective beneficial interest of approximately 27.4% in e2-Capital Pte Ltd. Therefore, the Company and e2-Capital are considered to have an aggregate beneficial interest of approximately 56% in e2-Capital Pte Ltd and therefore together effectively control e2-Capital Pte Ltd. In view of this, we consider that it is fair and reasonable for the Company and e2-Capital to agree to execute the SIIS Guarantee and the e2-Capital Guarantee under which both the Company and e2-Capital will act as guarantors in respect of the obligations and liabilities of e2-Capital Pte Ltd.

Furthermore, the Company has agreed to execute the SIIS Indemnity pursuant to which the Company will be responsible for up to 51% of any amount which e2-Capital is required to pay under the e2-Capital Guarantee (insofar as the amount payable by e2-Capital does not arise as a result of the default of e2-Capital) and e2-Capital has also agreed to execute the e2-Capital Indemnity pursuant to which e2-Capital will be responsible for up to 49% of any amount which the Company is required to pay under the SIIS Guarantee (insofar as the amount payable by the Company does not arise as a result of the default of the Company). In view of the fact that the Company and e2-Capital shall have a beneficial interest of 51% and 49% in e2-Capital Securities, respectively, as a result of the reorganization of the e2-Capital Financial Services Group contemplated by the Share Purchase Agreement, we consider that the SIIS Indemnity and the e2-Capital Indemnity were arranged effectively as cross-indemnities which reflect the respective beneficial interests of the Company and e2-Capital in e2-Capital Securities and, accordingly, each of the Company and e2-Capital shall be indemnified for an amount representing its attributable share of liabilities and obligations which may arise from their respective interests in e2-Capital Pte Ltd. Therefore, we consider that the entering into of the SIIS Indemnity by the Company would safeguard the interests of the Company and the Shareholders by having a cross-indemnity arrangement to be provided by the SIIS Indemnity and the e2-Capital Indemnity, and therefore the terms of the SIIS Indemnity to be in the interests of the Company and the Shareholders and are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

2. Evaluation of the exposure under the SIIS Guarantee

We have reviewed the terms and conditions of the SIIS Guarantee and noted that the Company shall, inter alia, irrevocably and unconditionally guarantee to the MAS in relation to (i) the financial liquidity and financial position of e2-Capital Pte Ltd at all times and to provide adequate funds to make up any liquidity shortfall in e2-Capital Pte Ltd; and (ii) the payment and settlement of all such liabilities and obligations of e2-Capital Pte Ltd upon the service of first written demand by the MAS.

In this regard, we have discussed with and were informed by the Directors that based on the management accounts of e2-Capital Pte Ltd, the unaudited consolidated net assets of e2-Capital Pte Ltd as at 28 February 2001 amounted to approximately S\$2.24 million (equivalent to approximately HK\$10.1 million) and that the aggregate cash balances of e2-Capital Pte Ltd as at 28 February 2001 amounted to approximately S\$1.34 million (equivalent to approximately HK\$6.0 million). In this regard, we consider that in view of the proforma unaudited adjusted consolidated net tangible assets of the Company of approximately HK\$416.2 million after the completion of (inter alia) the Share Purchase Agreement, the Company has sufficient assets

coverage in honouring its obligations and liabilities under the SIIS Guarantee if it were to materialize in terms of the requirement to maintain the financial liquidity (as represented by its cash balances) and the financial position (as represented by its net asset backing) of e2-Capital Pte Ltd. Furthermore, we were informed by the Directors that in circumstances where e2-Capital Pte Ltd is engaged in any underwriting activities of equity share offers, the Directors confirm that the Company (through e2-Capital Securities) would exercise careful review and risk control procedures in limiting the underwriting exposure of e2-Capital Pte Ltd. In this regard, we were informed by the Directors that the Company (through e2-Capital Securities) intends to maintain the existing local underwriting committee of e2-Capital Pte Ltd which comprises members of its board of directors for the purpose of making decisions on underwriting commitments made by e2-Capital Pte Ltd regarding underwriting of equity securities on the primary or secondary markets, and in respect of which (i) any underwriting commitment not exceeding S\$1.25 million (equivalent to approximately HK\$5.6 million) shall require the unanimous approval of a sub-committee of such local underwriting committee; (ii) any underwriting commitment of between S\$1.25 million and S\$2.5 million (equivalent to between approximately HK\$5.6 million and HK\$11.2 million) shall require the unanimous approval of the members of such local underwriting committee; and (iii) any underwriting commitment in excess of S\$2.5 million (equivalent to approximately HK\$11.2 million) shall require the unanimous approval of an underwriting committee of e2-Capital, in respect of which the Directors consider a similar underwriting committee would be established by the Company to replace e2-Capital's underwriting committee following the completion of the Share Purchase Agreement. Therefore we consider that the above procedures would have the effect of limiting the potential financial liabilities to which e2-Capital Pte Ltd may be subject, in the same way which e2-Capital as the controlling shareholder of e2-Capital Pte Ltd has been carrying out before the completion of the Share Purchase Agreement under the terms of the e2-Capital Guarantee.

Based on the above, we consider that the Company's exposure under the SIIS Guarantee to be acceptable.

3. *Guarantee from a minority shareholder of e2-Capital Pte Ltd*

We were informed by the Directors that, as a result of the reorganization of the e2-Capital Financial Services Group contemplated by the Share Purchase Agreement, e2-Capital Pte Ltd shall be beneficially owned as to 56% by e2-Capital Securities and the remaining 44% of the issued share capital of e2-Capital Pte Ltd shall be beneficially owned as to 40% by Westcomb Profits Limited ("Westcomb") and as to 4% by a director of e2-Capital Pte Ltd. We were further informed by the Directors that in this regard, Westcomb has executed an irrevocable and unconditional guarantee (the "Westcomb Guarantee") in favour of the MAS in the same form as the SIIS Guarantee and the e2-Capital Guarantee. We were further informed by the Directors that in this connection, the SIIS Guarantee, the e2-Capital Guarantee and the Westcomb Guarantee are of equal weightings and rankings from the viewpoint of the MAS and were executed to provide full coverage over the obligations and liabilities of e2-Capital Pte Ltd in favour of the MAS. In this regard, we consider that in the event the Company were unable to honour its obligations and liabilities under the SIIS Guarantee, then the MAS may resort to the e2-Capital Guarantee and the Westcomb Guarantee which infers that the Company may be relieved of any claims from the MAS to the extent that they can be satisfied under the e2-Capital Guarantee and the Westcomb Guarantee.

Based on the above, we noted that the enforcement by the MAS of the SIIS Guarantee may be supported by the e2-Capital Guarantee and the Westcomb Guarantee which are concurrent with the SIIS Guarantee, a feature which we consider to be acceptable to the Company and the Shareholders.

Recommendation

Having taken into account the principal factors and reasons referred to above, we consider the terms and conditions of the SIIS Guarantee and the SIIS Indemnity to be in the interests of the Company and the Shareholders as a whole as it enables e2-Capital Pte Ltd, which is beneficially held as to 56% by e2-Capital Securities and which in turn will be controlled indirectly by the Company through SBIIS CH, to continue carrying out its business activities under the MAS Investment Adviser Licence and, on the basis that the SIIS Guarantee may be supported by the e2-Capital Guarantee and the Westcomb Guarantee which are concurrent with the SIIS Guarantee, are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we would advise the Independent Director to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to consider and, if thought fit, approve the SIIS Guarantee and the SIIS Indemnity.

Yours faithfully,
For and on behalf of
Pacific Challenge Capital Limited
Christopher Wong
Director

**Deloitte Touche
Tohmatsu**



**德勤·關黃陳方
會計師行**

26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

7 March 2001

The Directors
e2-Capital (Holdings) Limited
4/F., Henley Building
5 Queen's Road Central
Hong Kong

Dear Sirs,

Pursuant to a conditional share purchase agreement (the "Share Purchase Agreement") dated 31 January 2001 between Goodwill Investment (BVI) Limited ("Goodwill"), SBIIS Capital Holdings Limited ("SBIIS") and Softbank Investment International (Strategic) Limited, Goodwill agreed to sell and SBIIS agreed to purchase 51 per cent. of the issued share capital of e2-Capital Securities (Holdings) Limited ("e2-Capital Securities") for a consideration of HK\$318.5 million. After a corporate reorganisation (the "Corporate Reorganisation") to be implemented by Goodwill prior to the completion of the Share Purchase Agreement, e2-Capital Securities will be the holding company of certain existing subsidiaries of Goodwill (the "Subsidiaries").

We set out below our report on the financial information relating to e2-Capital Securities and the Subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2000 (the "Relevant Periods").

e2-Capital Securities was incorporated and registered in the Cayman Islands on 4 October 1996 as a limited company under the Companies Law of the Cayman Islands. Details of the Subsidiaries are set out as follows:

Name of company	Place and date of incorporation	Issued and fully paid share capital	Principal activities
Azure Assets Limited	British Virgin Islands 25 October 1993	US\$1	Securities trading
e2-Capital (China) Inc.	British Virgin Islands 6 September 2000	US\$1	Provision of corporate finance services

**APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES
AND e2-CAPITAL FINANCIAL SERVICES GROUP**

Name of company	Place and date of incorporation	Issued and fully paid share capital	Principal activities
e2-Capital (HK) Limited	Hong Kong 31 October 1991	HK\$10,000,000	Provision of corporate finance services
e2-Capital Pte Limited	Singapore 1 April 2000	S\$2,500,000	Provision of corporate finance services
e2-Capital (USA) Inc.	British Virgin Islands 5 September 2000	US\$1	Provision of corporate finance services
e2-Capital Brokerage Limited	Hong Kong 31 December 1991	HK\$10,000,000	Securities broking
e2-Capital Commodities Limited	Hong Kong 15 October 1991	HK\$5,000,000	Broker of commodities, options and futures
e2-Capital Investment Management Limited	Hong Kong 15 June 1993	HK\$4,000,000	Inactive
e2-Capital Nominees Services Limited	Hong Kong 19 May 2000	HK\$2	Provision of nominees services
e2-Capital Research Limited	Hong Kong 12 September 1991	HK\$2	Research of securities market
e2-Capital Securities (B.V.I.) Limited	British Virgin Islands 12 September 1996	US\$1	Investment holding
e2-Capital Securities Limited	Hong Kong 13 August 1991	HK\$50,000,000	Securities broking and margin financing

**APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES
AND e2-CAPITAL FINANCIAL SERVICES GROUP**

Name of company	Place and date of incorporation	Issued and fully paid share capital	Principal activities
Goodwill Offshore Services Limited	British Virgin Islands 4 April 1995	US\$1	Inactive
Goodwill Credit Limited	Hong Kong 18 October 1991	HK\$26,000,000	Inactive
Turnton Investments Limited	British Virgin Islands 3 July 1996	US\$1	Investment holding
Will Kong Nominees Limited	Hong Kong 10 March 1992	HK\$2	Provision of nominee services
Woodhill Investments Limited	Hong Kong 12 September 1991	HK\$2	Securities trading

Notes:

- (i) The issued and fully paid share capital of the Subsidiaries are ordinary shares.
- (ii) As at the date of this report, all the Subsidiaries, except e2-Capital (China) Inc., e2-Capital Pte Limited, e2-Capital (USA) Inc. and Turnton Investments Limited have been wholly owned by e2-Capital Securities. After the Corporate Reorganisation, e2-Capital Securities will, in addition, hold 56% equity interests in e2-Capital Pte Limited and 100% equity interests in e2-Capital (China) Inc., e2-Capital (USA) Inc. and Turnton Investments Limited.
- (iii) e2-Capital Pte Limited is audited by a member firm of Deloitte Touche Tohmatsu International of which Deloitte Touche Tohmatsu, Hong Kong is a member.

No audited financial statements have been prepared for Azure Assets Limited, e2-Capital (China) Inc., e2-Capital (USA) Inc., e2-Capital Securities (B.V.I.) Limited, Goodwill Offshore Services Limited and Turnton Investments Limited since their respective dates of incorporation as they were incorporated in a country where there is no statutory audit requirement. For the purpose of this report, we have, however, reviewed all relevant transactions of these companies since their respective dates of incorporation as appropriate and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies.

We have acted as auditors of all the other companies now comprising the Group for the Relevant Periods or since their respective dates of incorporation where this is a shorter period.

**APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES
AND e2-CAPITAL FINANCIAL SERVICES GROUP**

We have examined the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group for the Relevant Periods, or since their respective dates of incorporation to 31 December 2000, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The financial information of the Group for the Relevant Periods set out in this report has been prepared from the audited financial statements or management accounts (the "Underlying Financial Statements") of the companies now comprising the Group, on the basis set out in note 1 to the financial information, after making such adjustments as we consider appropriate for the purpose of preparing this report.

The Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. It is our responsibilities to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section (IV) below, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 1998, 1999 and 2000, and of the combined results and cash flows of the Group for the Relevant Periods.

**APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES
AND e2-CAPITAL FINANCIAL SERVICES GROUP**

(A) FINANCIAL INFORMATION OF THE GROUP

(I) COMBINED INCOME STATEMENT

	<i>NOTES</i>	Year ended 31 December		
		1998	1999	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	180,211	198,839	143,335
Investment (losses) gains	4	(7,549)	298	59,691
Other income	5	79	90	12,665
Cost of sales of other investments		(147,698)	(154,439)	(23,680)
(Provision for bad debts) bad debts recovered		(28,000)	7,555	6,459
Staff costs		(16,600)	(22,691)	(47,440)
Depreciation		(1,081)	(783)	(914)
Other operating expenses		<u>(31,840)</u>	<u>(20,759)</u>	<u>(40,767)</u>
(Loss) profit from operations		(52,478)	8,110	109,349
Finance costs	6	(3,762)	(1,726)	(2,893)
Share of results of associates		89	—	—
(Loss) profit before taxation	7	(56,151)	6,384	106,456
Taxation (charge) credit	9	<u>(5)</u>	<u>216</u>	<u>(4,181)</u>
(Loss) profit before minority interests		(56,156)	6,600	102,275
Minority interests		<u>—</u>	<u>—</u>	<u>675</u>
Net (loss) profit for the year		(56,156)	6,600	102,950
Dividend	10	<u>—</u>	<u>—</u>	<u>(20,000)</u>
Net (loss) profit for the year, retained		<u><u>(56,156)</u></u>	<u><u>6,600</u></u>	<u><u>82,950</u></u>

There were no recognised gains or losses other than the net (loss) profit for the Relevant Periods. Accordingly, no separate statement of recognised gains and losses is presented.

**APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES
AND e2-CAPITAL FINANCIAL SERVICES GROUP**

(II) COMBINED BALANCE SHEET

	<i>NOTES</i>	At 31 December		
		1998	1999	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Property and equipment	11	3,054	1,829	3,054
Investments in securities	12	1,560	1,858	62,319
Statutory and other deposits	13	4,100	3,950	4,000
		<u>8,714</u>	<u>7,637</u>	<u>69,373</u>
Current assets				
Trade debtors	14	37,815	134,899	119,806
Other receivables, prepayments and deposits		15,417	2,629	13,960
Amount due from ultimate holding company	15	935	—	—
Amounts due from fellow subsidiaries	16	195	207	275
Amount due from a director	17	137	—	—
Investments in securities	12	884	—	76,237
Taxation recoverable		4,100	1,736	94
Pledged bank deposit		5,000	5,000	5,000
Bank balances and cash		52,955	90,263	140,402
		<u>117,438</u>	<u>234,734</u>	<u>355,774</u>
Current liabilities				
Trade creditors	18	38,086	114,864	183,055
Other payables, deposits received and accruals		16,456	7,136	7,903
Amount due to a director	19	—	122	531
Amount due to ultimate holding company	20	—	289	41,645
Amounts due to fellow subsidiaries	21	23,265	22,999	22,271
Dividend payable		—	—	20,000
Taxation		—	8	4,148
Bank overdrafts - unsecured		2,876	44,884	—
		<u>80,683</u>	<u>190,302</u>	<u>279,553</u>
Net current assets		<u>36,755</u>	<u>44,432</u>	<u>76,221</u>
		<u>45,469</u>	<u>52,069</u>	<u>145,594</u>
Capital and reserves				
Combined share capital	22	—	—	6,300
Reserves	23	45,469	52,069	135,019
Total capital and reserves		45,469	52,069	141,319
Minority interests		—	—	4,275
		<u>45,469</u>	<u>52,069</u>	<u>145,594</u>

**APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES
AND e2-CAPITAL FINANCIAL SERVICES GROUP**

(III) COMBINED CASH FLOW STATEMENT

		Year ended 31 December		
	<i>NOTES</i>	1998	1999	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	24	<u>247,324</u>	<u>(11,288)</u>	<u>17,607</u>
SERVICING OF FINANCE				
Interest paid		<u>(3,762)</u>	<u>(1,726)</u>	<u>(2,893)</u>
TAXATION				
Hong Kong Profits Tax paid		(3,291)	—	(6)
Hong Kong Profits Tax refunded		<u>—</u>	<u>2,588</u>	<u>1,607</u>
NET TAXATION (PAID) REFUNDED		<u>(3,291)</u>	<u>2,588</u>	<u>1,601</u>
INVESTING ACTIVITIES				
Proceeds from sale of other investments		63,661	—	10,614
Proceeds from disposal of associates		2,797	—	—
Purchases of property and equipment		<u>(172)</u>	<u>(482)</u>	<u>(2,139)</u>
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		<u>66,286</u>	<u>(482)</u>	<u>8,475</u>
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		<u>306,557</u>	<u>(10,908)</u>	<u>24,790</u>
FINANCING	25			
Issues of ordinary share capital of subsidiaries		—	—	6,300
Capital contributed by minority shareholders		—	—	4,950
Repayments of advances from financial institutions		(22,369)	—	—
Amount due to ultimate holding company		<u>—</u>	<u>289</u>	<u>41,356</u>
CASH (OUTFLOW) INFLOW FROM FINANCING		<u>(22,369)</u>	<u>289</u>	<u>52,606</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		284,188	(10,619)	77,396
CASH AND CASH EQUIVALENTS AT 1 JANUARY		<u>(255,170)</u>	<u>29,018</u>	<u>18,399</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>29,018</u></u>	<u><u>18,399</u></u>	<u><u>95,795</u></u>

	<i>NOTES</i>	Year ended 31 December		
		1998	1999	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Bank balances and cash		52,955	90,263	140,402
Less: Trust accounts and segregated accounts		<u>(21,061)</u>	<u>(26,980)</u>	<u>(44,607)</u>
		31,894	63,283	95,795
Bank overdrafts		<u>(2,876)</u>	<u>(44,884)</u>	<u>—</u>
		<u>29,018</u>	<u>18,399</u>	<u>95,795</u>

(IV) NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The combined income statement and combined cash flow statement include the results and cash flows of the companies now comprising the Group as if the proposed group structure had been in existence throughout the Relevant Periods, or since their dates of incorporation where this is a shorter period. The combined balance sheet of the Group as at 31 December 1998, 1999 and 2000 have been prepared to present the assets and liabilities of the Group as if the proposed group structure had been in existence as at those dates.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The principal accounting policies which have been adopted in preparing the financial information set out in this report and which conform with accounting principles generally accepted in Hong Kong are set out below:

Revenue recognition

Brokerage income, commission income, advisory fees, nominee income and management fee are recognised when the service is rendered, the income can be reliably estimated and it is probable that the revenue will be received.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of doubtful debts where interest is credited to a provision account which is netted in the balance sheet against the relevant balances.

Dividend income from investments is recognised when the Group's rights to receive payments have been established.

Proceeds from disposal of securities are recognised when a sale and purchase contract is entered into.

Profit or loss on futures and equity option trading and other financial derivative products is recognised on a trade date basis when a sale and purchase contract is entered into.

Property and equipment

Property and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is charged to write off the cost of property and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% - 33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	20%

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the income statement. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

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3. TURNOVER

	Year ended 31 December		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Brokerage income from securities dealing and equity options trading on The Stock Exchange of Hong Kong Limited ("SEHK")	20,747	32,025	74,741
Brokerage income from futures and options contracts trading on Hong Kong Futures Exchange Limited ("HKFE")	4,539	5,475	5,370
Commission brokerage on new issue, underwriting, and sub-underwriting	5,538	1,517	1,930
Advisory fees and other commission income	100	1,018	24,590
Nominee income	525	566	656
Interest from margin financing and bank interest income	8,114	5,777	10,366
Dividend income	20	—	157
Sale proceeds from securities trading	140,921	153,653	22,241
Loss on futures and equity option trading	(293)	(1,192)	—
Net gain arising from financial derivative products	—	—	3,284
	<u>180,211</u>	<u>198,839</u>	<u>143,335</u>

Geographical segment information is not shown as the Group's turnover and operating results are derived from Hong Kong.

4. INVESTMENT (LOSSES) GAINS

	Year ended 31 December		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Unrealised gain on holding of shares in Hong Kong Exchanges and Clearing Limited ("HKEC")	—	—	35,078
Gain on disposal of shares in HKEC	—	—	10,399
Unrealised (losses) gains on other investments	(309)	298	14,214
Loss on disposal of long term other investments	(7,240)	—	—
	<u>(7,549)</u>	<u>298</u>	<u>59,691</u>

5. OTHER INCOME

	Year ended 31 December		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
One-off management fee from a fellow subsidiary (note 30)	—	—	12,500
Sundry income	79	90	165
	<u>79</u>	<u>90</u>	<u>12,665</u>

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6. FINANCE COSTS

	Year ended 31 December		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Interest expenses on borrowings wholly repayable within five years:			
- authorised institutions	2,752	1,190	1,201
- clients	942	426	1,605
- ultimate holding company	68	20	87
- others	—	90	—
	<u>3,762</u>	<u>1,726</u>	<u>2,893</u>

7. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
(Loss) profit before taxation has been arrived at after charging:			
Auditors' remuneration	550	550	550
Expenses disbursements to ultimate holding company/fellow subsidiary (note 30)	14,691	6,944	12,643
Loss on disposal of associates	759	—	—
Loss on disposal of property and equipment	—	924	—
Operating lease rentals in respect of rented premises	<u>3,816</u>	<u>1,951</u>	<u>859</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Year ended 31 December		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—
Other emoluments - salaries and other benefits	<u>1,801</u>	<u>2,761</u>	<u>5,369</u>
	<u>1,801</u>	<u>2,761</u>	<u>5,369</u>

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The emoluments were paid to the directors as follows:

	Year ended 31 December		
	1998	1999	2000
	<i>Number of directors</i>	<i>Number of directors</i>	<i>Number of directors</i>
Nil to HK\$1,000,000	6	8	6
HK\$1,000,001 to HK\$1,500,000	1	1	2
HK\$2,000,001 to HK\$2,500,000	—	—	1
	<u>7</u>	<u>9</u>	<u>9</u>

Employees' emoluments

The five highest paid individuals included one, two and four directors of the Company for each of three years ended 31 December 2000 respectively, details of whose emoluments are set out above. The emoluments of the remaining highest paid individuals during the Relevant Periods were as follows:

	Year ended 31 December		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	<u>2,725</u>	<u>1,954</u>	<u>1,130</u>

The emoluments of each of the aforesaid employees were within the following bands:

	Year ended 31 December		
	1998	1999	2000
Nil to HK\$1,000,000	4	3	—
HK\$1,000,001 to HK\$1,500,000	—	—	1
	<u>4</u>	<u>3</u>	<u>1</u>

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9. TAXATION (CHARGE) CREDIT

	Year ended 31 December		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax			
- provision for the year	(5)	(23)	(4,182)
- overprovision in prior years	—	11	1
Refund of 10% of 1997/98 final tax under section 87 of the Hong Kong Inland Revenue Ordinance	—	228	—
	<u>(5)</u>	<u>216</u>	<u>(4,181)</u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the Relevant Periods.

Details of the deferred taxation not recognised are set out in note 26.

10. DIVIDEND

	Year ended 31 December		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Interim dividend	<u>—</u>	<u>—</u>	<u>20,000</u>

Interim dividend of HK\$20,000,000 for the year ended 31 December 2000 was paid to Goodwill by e2-Capital Securities.

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11. PROPERTY AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1 January 1998	1,753	2,297	4,050
Additions	<u>85</u>	<u>87</u>	<u>172</u>
At 31 December 1998	<u>1,838</u>	<u>2,384</u>	<u>4,222</u>
DEPRECIATION			
At 1 January 1998	49	38	87
Provided for the year	<u>609</u>	<u>472</u>	<u>1,081</u>
At 31 December 1998	<u>658</u>	<u>510</u>	<u>1,168</u>
NET BOOK VALUE			
At 31 December 1998	<u><u>1,180</u></u>	<u><u>1,874</u></u>	<u><u>3,054</u></u>
COST			
At 1 January 1999	1,838	2,384	4,222
Additions	272	210	482
Disposals	<u>(1,838)</u>	<u>—</u>	<u>(1,838)</u>
At 31 December 1999	<u>272</u>	<u>2,594</u>	<u>2,866</u>
DEPRECIATION			
At 1 January 1999	658	510	1,168
Provided for the year	298	485	783
Eliminated on disposals	<u>(914)</u>	<u>—</u>	<u>(914)</u>
At 31 December 1999	<u>42</u>	<u>995</u>	<u>1,037</u>
NET BOOK VALUE			
At 31 December 1999	<u><u>230</u></u>	<u><u>1,599</u></u>	<u><u>1,829</u></u>
COST			
At 1 January 2000	272	2,594	2,866
Additions	<u>189</u>	<u>1,950</u>	<u>2,139</u>
At 31 December 2000	<u>461</u>	<u>4,544</u>	<u>5,005</u>
DEPRECIATION			
At 1 January 2000	42	995	1,037
Provided for the year	<u>140</u>	<u>774</u>	<u>914</u>
At 31 December 2000	<u>182</u>	<u>1,769</u>	<u>1,951</u>
NET BOOK VALUE			
At 31 December 2000	<u><u>279</u></u>	<u><u>2,775</u></u>	<u><u>3,054</u></u>

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12. INVESTMENTS IN SECURITIES

	Investment securities			Other investments			Total		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities:									
Listed in Hong Kong	—	—	—	884	—	61,087	884	—	61,087
Listed overseas	—	—	—	560	858	1,232	560	858	1,232
Unlisted	1,000	1,000	—	—	—	—	1,000	1,000	—
	1,000	1,000	—	1,444	858	62,319	2,444	1,858	62,319
Warrants listed in Hong Kong	—	—	—	—	—	76,237	—	—	76,237
	1,000	1,000	—	1,444	858	138,556	2,444	1,858	138,556
Market value of listed securities	—	—	—	1,444	858	138,556	1,444	858	138,556
Carrying amount analysed for reporting purposes as:									
Current	—	—	—	884	—	76,237	884	—	76,237
Non-current	1,000	1,000	—	560	858	62,319	1,560	1,858	62,319
	1,000	1,000	—	1,444	858	138,556	2,444	1,858	138,556

The warrants listed in Hong Kong as at 31 December 2000 of approximately HK\$76,237,000 (1999: Nil, 1998: Nil) represented listed warrants held for hedging the call options mentioned in note 27.

Note:

Pursuant to the documents dated 3 September 1999 issued by SEHK and HKFE to their respective shareholders, all outstanding "A" shares of SEHK and all outstanding ordinary shares of HKFE were cancelled. For each respective aforesaid share of SEHK and HKFE held, the shareholders of SEHK and HKFE could receive 805,000 and 1,393,500 shares in HKEC respectively and one trading right in SEHK and HKFE respectively. Alternatively, the shareholders of SEHK and HKFE were also offered a cash alternative under which they might elect to receive cash of HK\$3.88 per share in place of some or all of the HKEC shares.

Unlisted investment securities as at 31 December 1998 and 1999 of approximately HK\$1,000,000 represented investment cost of the Group's two "A" shares of SEHK and one ordinary share of HKFE. On 6 March 2000, the Group exchanged its two "A" shares of SEHK and one ordinary share of HKFE for an aggregate of 3,003,500 HKEC shares. Following the listing of HKEC shares on SEHK at 27 June 2000, the Group classified its investments in these HKEC shares as other investments and intended to hold for long term.

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13. STATUTORY AND OTHER DEPOSITS

	At 31 December		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Admission fee and guarantee fund contribution paid to Hong Kong Securities Clearing Company Limited	200	200	200
Contribution in cash to compensation fund with SEHK	100	100	100
Contribution in cash to compensation fund with HKFE	100	100	100
Statutory deposits with Securities and Futures Commission	400	250	300
Membership Deposits with HKFE Clearing Corporation Limited	1,500	1,500	1,500
Fidelity fund deposit paid to SEHK	100	100	100
Reserve fund contribution to The SEHK Options Clearing House Limited	1,500	1,500	1,500
Deposit for stock option trading system access right paid to SEHK	<u>200</u>	<u>200</u>	<u>200</u>
	<u>4,100</u>	<u>3,950</u>	<u>4,000</u>

14. TRADE DEBTORS

	At 31 December		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of dealing in securities	8,403	84,215	48,992
Loans to share margin clients	18,919	31,037	33,184
Accounts receivable from HKFECC arising from the ordinary course of business of dealing in futures contracts	<u>10,493</u>	<u>19,647</u>	<u>37,630</u>
	<u>37,815</u>	<u>134,899</u>	<u>119,806</u>

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities are two days after trade date, and from HKFECC is one day after trade date.

Except for the loans to share margin clients as mentioned below, all the above balances aged within 30 days.

Loans to share margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No ageing analysis is disclosed as in the opinion of directors, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

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15. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

Details of the amount due from ultimate holding company are as follows:

Name of company	Terms	At 31 December		
		1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
e2-Capital (Holdings) Limited	Unsecured, repayable on demand and non- interest bearing	935	—	—

16. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Details of the amounts due from fellow subsidiaries are as follows:

Name of fellow subsidiary	Terms	At 31 December		
		1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
e2-Capital Limited	Unsecured, repayable on demand and non-interest bearing	195	207	210
Cyber Future Investments Limited	Unsecured, repayable on demand and non-interest bearing	—	—	5
I-Attractive Investments Limited	Unsecured, repayable on demand and non-interest bearing	—	—	45
Quick Cash Investments Limited	Unsecured, repayable on demand and non-interest bearing	—	—	5
Dealday Investments Limited	Unsecured, repayable on demand and non-interest bearing	—	—	5
Eprofit Investments Limited	Unsecured, repayable on demand and non-interest bearing	—	—	5
		<u>195</u>	<u>207</u>	<u>275</u>

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17. AMOUNT DUE FROM A DIRECTOR

Details of the amount due from a director arising from securities trading are as follows:

Name	Terms	At 31 December		
		1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Mr. Fung Ka Pun	Unsecured, repayable on demand and interest bearing at Hong Kong prime lending rate plus 3.5% per annum	137	—	—

18. TRADE CREDITORS

	At 31 December		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities	12,355	79,424	101,882
Accounts payable to clients arising from the ordinary course of business of dealing in futures contracts	7,389	17,589	2,923
Amounts due to share margin clients	18,342	17,851	2,013
Premium received for call options granted to a client (note 27)	—	—	76,237
	<u>38,086</u>	<u>114,864</u>	<u>183,055</u>

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities are two days after trade date. The age of these balances is within 30 days.

Accounts payable to clients arising from the ordinary course of business of dealing in futures contracts are margin deposits received from clients for their trading of futures contracts on HKFE. The excesses of the outstanding amounts over the required initial margin deposits stipulated by HKFE are repayable to clients on demand. No ageing analysis is disclosed as in the opinion of directors, the ageing analysis does not give additional value in view of the nature of business of futures contract dealing.

Amounts due to share margin clients are repayable on demand. No ageing analysis is disclosed as in the opinion of directors, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

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19. AMOUNT DUE TO A DIRECTOR

Details of the amount due to a director arising from securities trading are as follows:

Name	Terms	At 31 December		
		1998	1999	2000
		HK\$'000	HK\$'000	HK\$'000
Mr. Fung Ka Pun	Unsecured, repayable on demand and interest bearing at bank savings account interest rate minus 0.25% per annum	—	122	531

20. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

Details of the amount due to ultimate holding company are as follows:

Name of company	Terms	At 31 December		
		1998	1999	2000
		HK\$'000	HK\$'000	HK\$'000
e2-Capital (Holdings) Limited	Unsecured, repayable on demand and non-interest bearing	—	289	41,645

21. AMOUNTS DUE TO FELLOW SUBSIDIARIES

Details of the amounts due to fellow subsidiaries are as follows:

Name of related entity	Terms	At 31 December		
		1998	1999	2000
		HK\$'000	HK\$'000	HK\$'000
New Jade Limited	Unsecured, repayable on demand and non-interest bearing	23,003	22,999	22,135
Compatriot Investments Limited	Unsecured, repayable on demand and non-interest bearing	262	—	—
E-Global Profits Limited	Unsecured, repayable on demand and non-interest bearing	—	—	136
		<u>23,265</u>	<u>22,999</u>	<u>22,271</u>

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22. COMBINED SHARE CAPITAL

The share capital as at 31 December 1998 and 1999 represented the nominal value of the issued share capital of e2-Capital Securities of HK\$150. The combined share capital as at 31 December 2000 represented the aggregate amount of the nominal values of the issued share capital of e2-Capital Securities, e2-Capital (China) Inc., e2-Capital Pte Limited, e2-Capital (USA) Inc. and Turnton Investments Limited as at year end date.

23. RESERVES

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits (deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1998	50,000	40,000	11,625	101,625
Loss for the year	—	—	<u>(56,156)</u>	<u>(56,156)</u>
At 31 December 1998	50,000	40,000	(44,531)	45,469
Profit for the year	—	—	<u>6,600</u>	<u>6,600</u>
At 31 December 1999	50,000	40,000	(37,931)	52,069
Profit for the year	—	—	102,950	102,950
Dividend	—	—	<u>(20,000)</u>	<u>(20,000)</u>
At 31 December 2000	<u>50,000</u>	<u>40,000</u>	<u>45,019</u>	<u>135,019</u>

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by e2-Capital Securities in exchange for the nominal amount of the share capital of its existing subsidiaries acquired under a group reorganisation in 1997.

24. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW)
FROM OPERATING ACTIVITIES

	Year ended 31 December		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(56,151)	6,384	106,456
Share of results of associates	(89)	—	—
Loss on disposal of associates	759	—	—
Interest expenses	3,762	1,726	2,893
Depreciation	1,081	783	914
Loss on disposal of property and equipment	—	924	—
Provision for doubtful debts	28,000	—	—
Investment (losses) gains	7,549	(298)	(59,691)
Decrease (increase) in statutory and other assets	300	150	(50)
Decrease (increase) in other investments	20,817	884	(87,621)
Decrease (increase) in trade debtors	265,219	(97,084)	15,093
(Increase) decrease in other receivables, prepayments and deposits	(32,890)	12,788	(11,331)
Decrease in amount due from ultimate holding company	2,235	935	—
Increase in amounts due from fellow subsidiaries	(42)	(12)	(68)
(Increase) decrease in amount due from a director	(137)	137	—
Decrease (increase) in bank balances of trust and segregated accounts	28,705	(5,919)	(17,627)
(Decrease) increase in trade creditors	(16,221)	76,778	68,191
(Decrease) increase in other payable, deposits received and accruals	(1,626)	(9,320)	767
(Decrease) increase in amount due to a director	(3,179)	122	409
Decrease in amounts due to fellow subsidiaries	(768)	(266)	(728)
	<u>247,324</u>	<u>(11,288)</u>	<u>17,607</u>
Net cash inflow (outflow) from operating activities	<u>247,324</u>	<u>(11,288)</u>	<u>17,607</u>

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25. ANALYSIS OF CHANGES IN FINANCING DURING THE RELEVANT PERIODS

	Combined share capital <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Advances from financial institutions with maturity over three months <i>HK\$'000</i>	Amount due to ultimate holding company <i>HK\$'000</i>
Balance at 1 January 1998	—	—	22,369	—
Repayment	<u>—</u>	<u>—</u>	<u>(22,369)</u>	<u>—</u>
Balance at 31 December 1998	—	—	—	—
New advance	<u>—</u>	<u>—</u>	<u>—</u>	<u>289</u>
Balance at 31 December 1999	—	—	—	289
Issues of share capital	6,300	4,950	—	—
Minority interests' share of loss for the year	—	(675)	—	—
New advance	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,356</u>
Balance at 31 December 2000	<u>6,300</u>	<u>4,275</u>	<u>—</u>	<u>41,645</u>

26. UNPROVIDED DEFERRED TAXATION

At the balance sheet dates, the components of unprovided deferred tax asset (liability) are as follows:

	1998 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax effect of timing differences because of:			
Excess of tax allowances over depreciation	(234)	(241)	(235)
Estimated tax losses	<u>13,078</u>	<u>14,584</u>	<u>10,405</u>
	<u>12,844</u>	<u>14,343</u>	<u>10,170</u>

The components of unprovided deferred tax (charge) credit for the Relevant Periods are as follows:

	1998 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax effect of timing differences because of:			
Difference between tax allowances and depreciation	(9)	(7)	6
Tax losses arising (utilised)	<u>6,139</u>	<u>1,506</u>	<u>(4,179)</u>
	<u>6,130</u>	<u>1,499</u>	<u>(4,173)</u>

APPENDIX I ACCOUNTANTS' REPORT ON e2-CAPITAL SECURITIES AND e2-CAPITAL FINANCIAL SERVICES GROUP

27. CALL OPTIONS

The balances referred to the premium received from the outstanding call options written to certain independent third parties which were used to hedge against the other listed investments mentioned in note 12.

28. LEASE COMMITMENTS

At the balance sheet dates, the Group had the following commitments payable within the following twelve months under non-cancellable operating leases in respect of land and buildings:

	At 31 December		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leases which expire in the second to fifth year inclusive	<u>2,450</u>	<u>812</u>	<u>—</u>

29. PLEDGE OF ASSET

At the balance sheet dates, a bank deposit of HK\$5,000,000 was pledged to a bank for overdraft facilities granted to a subsidiary. No overdraft facility was utilised by the subsidiary at the balance sheet dates.

30. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to ultimate holding company, fellow subsidiaries and a director as disclosed in notes 15, 16, 17, 19, 20 and 21, during the Relevant Periods, the Group had the following related party transactions:

Name of related party	Nature of transaction	Year ended 31 December		
		1998	1999	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OpenIBN (HK) Limited ("OpenIBN")	One-off management fee (i)	—	—	12,500
e2-Capital (Holdings) Limited	Expenses disbursements (ii)	14,691	—	—
Hancin Financial Corporation Limited	Expenses disbursements (ii)	—	6,944	12,643
Winbox Company Limited	Rental expenses (iii)	130	108	108
Mr. Fung Ka Pun	Interest income (iv)	—	—	11
	Interest expenses (v)	<u>16</u>	<u>4</u>	<u>1</u>

- (i) One-off management fee was charged in accordance with the terms of the agreement (the "Agreement") signed between OpenIBN and e2-Capital Securities Limited for the management, marketing and administrative support provided by e2-Capital Securities Limited to OpenIBN to conduct the corporate finance and advisory businesses during the year. Since June 2000, the corporate finance and advisory businesses previously carried out by OpenIBN were taken up by e2-Capital Securities Limited and e2-Capital (HK) Limited. The Agreement was terminated accordingly.

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- (ii) The ultimate holding company and a fellow subsidiary of the Group performed certain administrative services for the Group, for which expenses were reimbursed, being an appropriate allocation of actual costs incurred by the ultimate holding company and the fellow subsidiary respectively.
- (iii) Rental expenses paid to a fellow subsidiary were transacted with reference to the rental rate prevailing in the market.
- (iv) Interest was calculated at Hong Kong prime lending rate plus 3.5% per annum. The rate was similar to rates offered to other clients.
- (v) Interest was calculated at bank savings account interest rate minus 0.25% per annum according to the agreements entered into between the parties.

Mr. Fung Ka Pun, Ms. Tam Yuk Ching and Mr. Lai Shi Hong, Edward, directors of e2-Capital Securities, have beneficial interests in all the above companies through e2-Capital (Holdings) Limited, a company listed on SEHK.

31. RETIREMENT SCHEME

The Group has a defined contribution retirement benefits scheme (“Benefits Scheme”) for all qualifying employees. The assets of the Benefits Scheme are held separately under a provident fund managed by an independent trustee. The retirement benefits scheme contributions represent contributions payable to the fund by the Group at rates specified in the Benefits Scheme. Where there are employees who leave the Benefits Scheme prior to vesting fully in the contributions, in accordance with the rules of the Benefits Scheme, the forfeited contributions shall be credited thereto to offset against the future contributions of the Group to the Benefits Scheme. As at 31 December 1998, 1999 and 2000, the total amount of forfeited contributions, which arose upon employees leaving the Benefits Scheme, and which were available to reduce the contributions payable in the future years was not significant.

In December 2000, the Group had joined the Mandatory Provident Fund Scheme (“MPF Scheme”) under the rules and regulations of the Mandatory Provident Fund Authority. All the previous retirement benefits scheme contributions were transferred to the MPF Scheme.

32. SUBSEQUENT EVENT

Subsequent to 31 December 2000, the Group disposed of 1,006,500 HKEC shares for an aggregate consideration of approximately HK\$18.2 million and realised a profit of approximately HK\$17.8 million.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies in the Group in respect of any period subsequent to 31 December 2000.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants

The following is a summary of the audited results of the Group for each of the two years ended 31 March 1999 and the period from 1 April 1999 to 30 June 2000 and the net assets of the Group as at 31 March 1998, 31 March 1999 and 30 June 2000.

THREE YEAR SUMMARY OF AUDITED RESULTS AND NET ASSETS**Results**

	Period from 1 April 1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000	Year ended 31 March 1998 HK\$'000
Turnover	<u>203,941</u>	<u>170,404</u>	<u>208,387</u>
Loss before taxation	(30,509)	(33,722)	(54,940)
Taxation	<u>(1,419)</u>	<u>(221)</u>	<u>(366)</u>
Loss after taxation	(31,928)	(33,943)	(55,306)
Minority interests	<u>2,099</u>	<u>1,509</u>	<u>1,863</u>
Loss attributable to shareholders	<u>(29,829)</u>	<u>(32,434)</u>	<u>(53,443)</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	<u>(3.1)</u>	<u>(5.5)</u>	<u>(9.0)</u>

Assets and Liabilities

	30 June 2000 HK\$'000	31 March 1999 HK\$'000	31 March 1998 HK\$'000
Total assets	449,065	326,090	381,753
Total liabilities	(72,616)	(98,194)	(108,603)
Minority interests	<u>(32,323)</u>	<u>(34,469)</u>	<u>(38,748)</u>
Net assets	<u>344,126</u>	<u>193,427</u>	<u>234,402</u>

Notes:

1. The Company has adopted the revised Statements of Standard Accounting Practice in the presentation of the financial statements for the period ended 30 June 2000. Therefore, the presentation of the audited consolidated profit and loss accounts for the years ended 31 March 1998 and 31 March 1999 are different from that for the period ended 30 June 2000.
2. The financial year end of the Company was changed from 31 March to 30 June following the acquisition by its new substantial shareholder, SBIIH, in the financial period ended 30 June 2000. The new financial year end was adopted to comply with the accounting requirements of the new substantial shareholder.

Set out below is a summary of the audited consolidated profit and loss accounts of the Group for the year ended 31 March 1999 and the period from 1 April 1999 to 30 June 2000, the audited consolidated balance sheets of the Group as at 31 March 1999 and 30 June 2000, the audited consolidated cash flow statements of the Group for the year ended 31 March 1999 and the period from 1 April 1999 to 30 June 2000 and the audited consolidated statements of recognised gains and losses for the year ended 31 March 1999 and the period from 1 April 1999 to 30 June 2000, with relevant notes, as extracted from the audited financial statements of the Group for the period from 1 April 1999 to 30 June 2000.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period from 1 April 1999 to 30 June 2000 and for the year ended 31 March 1999

		Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	203,941	170,404
Cost of sales		<u>(153,287)</u>	<u>(125,968)</u>
Gross profit		50,654	44,436
Other revenues	3	3,048	263
Distribution costs		(4,917)	(4,646)
Administrative expenses		(62,713)	(49,276)
Other operating expenses		(23,815)	(19,746)
Gain on disposal of a subsidiary		<u>11,318</u>	<u>—</u>
Operating loss	4	(26,425)	(28,969)
Finance costs	5	(4,015)	(5,017)
Share of (loss)/profit of an associated company		<u>(69)</u>	<u>264</u>
Loss before taxation		(30,509)	(33,722)
Taxation	7	<u>(1,419)</u>	<u>(221)</u>
Loss after taxation		(31,928)	(33,943)
Minority interests		<u>2,099</u>	<u>1,509</u>
Loss attributable to shareholders	8	<u>(29,829)</u>	<u>(32,434)</u>
(Loss)/profit for the period/year retained by:			
Company and subsidiaries		(29,761)	(32,673)
Associated companies		<u>(68)</u>	<u>239</u>
		<u>(29,829)</u>	<u>(32,434)</u>
Loss per share	9	<u>(3.1 cents)</u>	<u>(5.5 cents)</u>

CONSOLIDATED BALANCE SHEET

As at 30 June 2000 and 31 March 1999

	<i>Note</i>	30 June 2000 HK\$'000	31 March 1999 HK\$'000
Fixed assets	10	186,377	190,280
Investments in associated companies	11	1,028	1,096
Deferred pre-operating expenses	12	—	1,184
Non-trading securities	13	52,000	—
Current assets			
Inventories	15	24,248	27,892
Trading investments	14	—	51,923
Accounts receivable		31,071	35,718
Sundry debtors, prepayments and deposits		4,894	8,278
Tax recoverable		—	140
Cash and bank balances		<u>149,447</u>	<u>9,579</u>
		<u>209,660</u>	<u>133,530</u>
Current liabilities			
Accounts payable	16	27,970	30,161
Other payables and deposits received		17,083	20,243
Current portion of long term liabilities	19	3,902	3,493
Tax payable		1,511	—
Bank loans and overdrafts			
— Secured		11,454	20,721
— Unsecured		<u>943</u>	<u>8,977</u>
		<u>62,863</u>	<u>83,595</u>
Net current assets		<u>146,797</u>	<u>49,935</u>
		<u>386,202</u>	<u>242,495</u>
Financed by:			
Share capital	17	188,591	58,808
Reserves	18	<u>155,535</u>	<u>134,619</u>
Shareholders' funds		344,126	193,427
Minority interests		32,323	34,469
Long term liabilities	19	<u>9,753</u>	<u>14,599</u>
		<u>386,202</u>	<u>242,495</u>

CONSOLIDATED CASH FLOW STATEMENT*For the period from 1 April 1999 to 30 June 2000 and the year ended 31 March 1999*

		Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	22(a)	(700)	9,828
Returns on investments and servicing of finance			
Interest received		2,873	268
Interest paid		(4,022)	(5,042)
Dividends received		—	418
Dividends paid to minority shareholders in subsidiaries	22(b)	(372)	(2,770)
Net cash outflow from returns on investments and servicing of finance		(1,521)	(7,126)
Taxation			
Hong Kong profits tax refunded		172	169
Overseas tax paid		(7)	(169)
Taxation refunded		165	—
Investing activities			
Purchase of fixed assets		(5,934)	(1,344)
Proceeds from sale of fixed assets		1,003	2,069
Purchase of non-trading securities		(78,789)	—
Proceeds from disposal of trading investments		41,692	—
Purchase of a subsidiary	22(d)	(9,063)	—
Sale of a subsidiary	22(f)	(959)	—
Net cash (outflow)/inflow from investing activities		(52,050)	725
Net cash (outflow)/inflow before financing		(54,106)	3,427

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)*For the period from 1 April 1999 to 30 June 2000 and the year ended 31 March 1999*

		Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financing			
Issue of ordinary shares	22(b)	224,323	—
Share issue expenses		(6,088)	—
Repurchase of ordinary shares		—	(139)
New short term loans		36,915	42,133
Repayment of short term loans		(56,166)	(34,989)
Repayment of long term loans		(4,437)	(3,014)
Net cash inflow from financing		<u>194,547</u>	<u>3,991</u>
Increase in cash and cash equivalents		140,441	7,418
Cash and cash equivalents at beginning of period/year		<u>(2,448)</u>	<u>(9,866)</u>
Cash and cash equivalents at end of period/year		<u>137,993</u>	<u>(2,448)</u>
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		149,447	9,579
Bank loans and overdrafts maturing within three months		<u>(11,454)</u>	<u>(12,027)</u>
		<u>137,993</u>	<u>(2,448)</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the period from 1 April 1999 to 30 June 2000 and the year ended 31 March 1999

	<i>Note</i>	Period from 1 April 1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
Deficit on revaluation of investment properties		—	(8,402)
Deficit on revaluation of non-trading securities	18	(26,789)	—
Exchange differences arising on translation of subsidiaries	18	<u>425</u>	<u>—</u>
Net losses not recognised in the profit and loss account		(26,364)	(8,402)
Loss for the period/year	18	(29,829)	(32,434)
Capital reserve released to the profit and loss account on disposal of a subsidiary	18	<u>(11,318)</u>	<u>—</u>
Total recognised losses		(67,511)	(40,836)
Goodwill eliminated directly against reserves	18	<u>(25)</u>	<u>—</u>
		<u>(67,536)</u>	<u>(40,836)</u>

NOTES TO THE ACCOUNTS

1 **Change of financial year end**

The Company changed its financial year end from 31 March to 30 June following the acquisition by its new substantial shareholder. The new financial year end of the Company was adopted to comply with the accounting requirements of the new substantial shareholder. The accounts now presented cover a period of fifteen months from 1 April 1999 to 30 June 2000. Accordingly, the comparative figures (which cover a period of twelve months from 1 April 1998 to 31 March 1999) for the profit and loss account, statement of recognised gains and losses, cash flows and related notes are not comparable with that of the current period.

2 **Principal accounting policies**

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) *Basis of preparation*

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities.

As a result of the adoption of the revised Hong Kong Statements of Standard Accounting Practice (“HKSSAP”) No.1 (revised) “Presentation of financial statements”, and No.2 (revised) “Net profit or loss for the period, fundamental errors and changes in accounting policies” which became effective during this period, certain comparative figures have been reclassified or extended accordingly.

(b) *Consolidation*

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 30 June 2000. The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) *Associated companies*

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of results of associated companies for the period, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies.

2 Principal accounting policies (Continued)

(d) *Goodwill*

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries and associated companies acquired, is eliminated against reserves in the year of acquisition.

(e) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at annual professional valuation undertaken by independent external valuers at the balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating results. Any subsequent increases are credited to operating results up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(f) *Fixed assets*

Fixed assets other than investment properties (note 2(e)) are stated at cost less accumulated depreciation and are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold land	Over the unexpired lease terms, ranging from 19 years to 48 years
Buildings	2.5% - 5.0%
Leasehold improvements	20%
Plant and machinery	10% - 15%
Furniture, fixtures and equipment	10% - 20%
Motor vehicles	20% - 25%
Computer equipment	30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2 **Principal accounting policies (Continued)**(g) *Deferred pre-operating expenses*

Deferred pre-operating expenses represent expenses incurred before the commencement of commercial operations of certain subsidiaries of PRC. All deferred pre-operating expenses are expensed when incurred. In prior years, these expenses are capitalised and amortised on a straight-line basis over a period not exceeding five years starting from the commencement date of operation of the relevant subsidiary. In order to comply with the revised HKSSAP No.1 which became effective in 2000, these expenses brought forward from the previous year were expensed entirely in the current period as the amounts involved are not material.

(h) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(i) *Investments in securities*(i) *Non-trading securities*

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(ii) *Trading investments*

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

In prior year, all trading investments of the Group were stated at the lower of cost or net realisable value. Following the adoption of Hong Kong Statements of Standard Accounting Practice No.24 "Accounting for investments in securities" ("HKSSAP No.24"), the directors have reviewed the difference between the amount of trading investments that would have been recorded for 1999 under the current accounting policy and the amount recorded under the prior year's accounting policy and consider it to be immaterial. Accordingly, no adjustment has been made to the opening reserve and the loss for the current period.

(j) *Inventories*

Inventories comprise stocks and work in progress and are stated at the lower of cost or net realisable value. Cost, calculated on the first-in first-out basis, comprises purchase cost of stocks in trade, materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

2 **Principal accounting policies (Continued)**(l) *Deferred taxation*

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(m) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(n) *Retirement benefit costs*

The Group contributes to defined contribution retirement schemes which are available to certain employees. Under these schemes, eligible employees of the Group are required to make contributions to these schemes calculated at 5% of the individual employee's monthly basic salaries. The Group's contributions are based on 5% to 10% of the individual employee's monthly basic salaries. The Group's contributions to these schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group also participates in the employee pension schemes of the respective municipal government in various places in PRC where the Group operates. The Group is to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The Group's contributions to the schemes are expensed as incurred.

(o) *Revenue recognition*

Revenue from sale of goods is recognised when the goods are delivered to customers and title has passed.

Revenue from sale of services is recognised when the services are rendered.

Rental income is recognised on a straight-line basis over the lease term.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3 Turnover and revenue

The Group is principally engaged in household fabric, garment manufacturing, dyestuff distribution, property investments and investment holding. Revenues recognised during the period are as follows:

	Period from 1 April 1999 to 30 June 2000 <i>HK\$'000</i>	Year ended 31 March 1999 <i>HK\$'000</i>
Turnover		
Sales of goods	162,707	135,093
Rendering of services	36,833	32,940
Gross rental income from investment properties	4,401	1,953
Dividend income from trading investments	—	418
	<u>203,941</u>	<u>170,404</u>
Other revenues		
Interest income	<u>3,048</u>	<u>263</u>
Total revenues	<u>206,989</u>	<u>170,667</u>

4 Operating loss

Operating loss is stated after crediting and charging the following:

	Period from 1 April 1999 to 30 June 2000 <i>HK\$'000</i>	Year ended 31 March 1999 <i>HK\$'000</i>
Crediting:		
Gain on disposal of fixed assets	<u>114</u>	<u>—</u>
Charging:		
Outgoings in respect of investment properties	361	188
Retirement benefit costs	1,377	1,052
Depreciation on owned fixed assets	12,480	9,720
Write-off/amortisation of deferred pre-operating expenses	1,184	770
Loss on disposal of fixed assets	—	10
Auditors' remuneration	880	530
Operating lease rentals in respect of land and buildings	—	440
Exchange loss	333	640
Staff costs	23,374	19,414
Realised/unrealised losses on trading investments	10,231	4,915
Deficit on revaluation of investment properties	9,150	8,548
Provision for doubtful debts and accounts receivable written off	2,935	5,336
Provision for long service payments	1,033	2,616
Provision for slow moving inventories and inventories written off	<u>2,431</u>	<u>—</u>

4 **Operating loss (Continued)**

The retirement benefit costs charged to the profit and loss account represent gross contributions payable by the Group of HK\$1,436,000 (1999: HK\$1,092,000) less forfeited contributions utilised of HK\$59,000 (1999: HK\$40,000). As at 30 June 2000, there were neither unutilised forfeited contribution (1999: Nil) nor contribution payable to the fund (1999: Nil).

5 **Finance costs**

	Period from 1 April 1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
Interest on bank loans and overdrafts		
— wholly repayable within 5 years	2,730	3,127
— not wholly repayable within 5 years	<u>1,285</u>	<u>1,890</u>
	<u>4,015</u>	<u>5,017</u>

6 **Directors' emoluments**

	Period from 1 April 1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
Fees	140	380
Salaries and other allowances	8,234	7,866
Bonuses	250	250
Pensions	<u>16</u>	<u>16</u>
	<u>8,640</u>	<u>8,512</u>

Emoluments to independent non-executive directors amounted to HK\$140,000 (1999: HK\$120,000) for the period.

The directors' emoluments fell within the following bands:

Emoluments band	Number of directors	
	Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
HK\$ Nil - HK\$1,000,000	12	4
HK\$1,000,001 - HK\$1,500,000	1	2
HK\$1,500,001 - HK\$2,000,000	2	2
HK\$2,000,001 - HK\$2,500,000	<u>1</u>	<u>1</u>
	<u>16</u>	<u>9</u>

The five individuals whose emoluments were the highest in the Group for the period were also directors and their emoluments are reflected in the analysis presented above.

6 **Directors' emoluments (Continued)**

During the period 57,124,000 share options were granted to the directors under the share option scheme approved by the shareholders at an Extraordinary General Meeting on 2 October 1990. Each of the options entitles the holder to subscribe for one ordinary share of HK\$0.1 each in the Company at a premium of HK\$1.95 each at any time during the period from 27 May 2000 to 26 April 2001. During the period no share options had been exercised by the directors.

7 **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 on the estimated assessable profit for the period at the rate of 27%.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company and subsidiaries:		
Hong Kong	(5)	10
PRC	1,427	192
Overprovision in prior year	<u>(2)</u>	<u>(6)</u>
	1,420	196
Share of taxation attributable to associated companies:		
Hong Kong	<u>(1)</u>	<u>25</u>
	<u>1,419</u>	<u>221</u>
Deferred taxation charge/(credit) for the period has not been provided in the accounts in respect of the following:		
Accelerated depreciation allowances	407	128
Tax losses	<u>(587)</u>	<u>(3,691)</u>
	<u>(180)</u>	<u>(3,563)</u>

8 **Loss attributable to shareholders**

The loss attributable to shareholders dealt with in the accounts of the Company is HK\$36,656,000 (1999: HK\$37,571,000).

9 **Loss per share**

The loss per share is calculated based on the loss attributable to shareholders of HK\$29,829,000 (1999: HK\$32,434,000) and on the weighted average number of 955,357,630 shares (1999: 588,174,837 shares) in issue during the period. Fully diluted loss per share is not shown as there is no dilution effect.

10 Fixed assets

Group

	Investment properties	Other properties	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation									
At 1 April 1999	49,740	134,281	5,602	41,075	18,502	—	19,247	375	268,822
Exchange adjustments	—	732	—	352	121	—	76	4	1,285
Additions	—	—	2,187	8	1,487	728	757	767	5,934
Acquisition of a subsidiary	11,800	—	—	—	—	—	—	—	11,800
Disposal of a subsidiary	—	—	—	(1,033)	(1,607)	—	—	—	(2,640)
Disposals	—	—	—	(46)	(297)	—	(8,807)	—	(9,150)
Revaluation	(9,150)	—	—	—	—	—	—	—	(9,150)
Reclassification	12,518	(12,209)	—	81	—	—	591	(981)	—
At 30 June 2000	<u>64,908</u>	<u>122,804</u>	<u>7,789</u>	<u>40,437</u>	<u>18,206</u>	<u>728</u>	<u>11,864</u>	<u>165</u>	<u>266,901</u>
Accumulated depreciation									
At 1 April 1999	—	15,786	5,269	31,076	11,390	—	15,021	—	78,542
Exchange adjustments	—	79	—	207	57	—	55	—	398
Charge for the period	—	4,637	716	3,162	2,758	218	989	—	12,480
Disposal of a subsidiary	—	—	—	(1,033)	(1,602)	—	—	—	(2,635)
Disposals	—	—	—	(31)	(224)	—	(8,006)	—	(8,261)
Reclassification	668	(668)	—	—	—	—	—	—	—
At 30 June 2000	<u>668</u>	<u>19,834</u>	<u>5,985</u>	<u>33,381</u>	<u>12,379</u>	<u>218</u>	<u>8,059</u>	<u>—</u>	<u>80,524</u>
Net book value									
At 30 June 2000	<u>64,240</u>	<u>102,970</u>	<u>1,804</u>	<u>7,056</u>	<u>5,827</u>	<u>510</u>	<u>3,805</u>	<u>165</u>	<u>186,377</u>
At 31 March 1999	<u>49,740</u>	<u>118,495</u>	<u>333</u>	<u>9,999</u>	<u>7,112</u>	<u>—</u>	<u>4,226</u>	<u>375</u>	<u>190,280</u>
The analysis of cost or valuation of the above assets is as follows:									
At cost	—	122,804	7,789	40,437	18,206	728	11,864	165	201,993
At professional valuation - 2000	<u>64,908</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>64,908</u>
	<u>64,908</u>	<u>122,804</u>	<u>7,789</u>	<u>40,437</u>	<u>18,206</u>	<u>728</u>	<u>11,864</u>	<u>165</u>	<u>266,901</u>

The investment properties were revalued on an open market value basis as at 30 June 2000 by an independent valuer, A.G. Wilkinson & Associates, Chartered Surveyors.

10 Fixed assets (Continued)

The Group's interests in investment properties and other properties at their net book values are as follows:

	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Held in Hong Kong on:		
Leases of over 50 years	7,850	10,000
Leases between 10 to 50 years	92,646	89,023
Held outside Hong Kong on:		
Leases between 10 to 50 years	<u>66,714</u>	<u>69,212</u>
	<u>167,210</u>	<u>168,235</u>

At 30 June 2000, certain investment properties of the Group with an open market value of HK\$36,150,000 (1999: HK\$16,300,000) were pledged to secure banking facilities granted to the Group. In addition, certain other properties of the Group with a total net book value of HK\$46,350,000 (1999: HK\$51,161,000) were pledged to secure banking facilities granted to the Group.

11 Investments in associated companies

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Share of net assets	1,028	1,096
Amount due from an associated company	<u>12,180</u>	<u>12,180</u>
	13,208	13,276
Less: Provision for diminution in value	<u>(12,180)</u>	<u>(12,180)</u>
	<u>1,028</u>	<u>1,096</u>
Unlisted shares, at cost	<u>1</u>	<u>1</u>

The amount due from an associated company is unsecured and interest free and has no fixed terms of repayment.

Details of the associated companies are as follows:

Name	Place of incorporation and operation	Percentage of equity held by Company	Group	Principal activities
*Allied Benefit Limited	Hong Kong	—	34.29%	Investment holding
Colour Star Dyestuffs Company Limited	Hong Kong	—	50%	Dyestuffs trading

* Associated company not audited by PricewaterhouseCoopers, Hong Kong.

11 Investments in associated companies (Continued)

The aggregate net assets of the associated company not audited by PricewaterhouseCoopers, Hong Kong represented less than 0.1% the Group's total net assets at 30 June 2000.

12 Deferred pre-operating expenses

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
At 1 April	1,184	1,954
Amortisation	<u>(1,184)</u>	<u>(770)</u>
At 30 June	<u>—</u>	<u>1,184</u>

13 Non-trading securities

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Equity securities, at fair value		
Listed in Hong Kong	<u>52,000</u>	<u>—</u>
Market value of listed shares	<u>52,000</u>	<u>—</u>

At 30 June 2000, the carrying amount of interests in the following company exceeded 10% of total assets of the Company and the Group, respectively.

Name	Place of incorporation	Principal activities	Particular of issued shares held	Interest held
e2-Capital (Holdings) Limited (Formerly known as Goodwill Investment (Holdings) Limited)	Bermuda	Provision of corporate finance advisory services	Ordinary shares of US\$0.1 each	5.6%

14 Trading investments

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Listed equity securities in Hong Kong, at fair value	<u>—</u>	<u>51,923</u>
Market value of listed shares	<u>—</u>	<u>17,180</u>

As at 31 March 1999, the Group had investments in 39,285,000 ordinary shares in Lai Fung Holdings Limited ("Lai Fung"). Following the adoption of HKSSAP No.24, the directors have reviewed the difference between the fair value and the net realisable value of these investments, by reference to the market value of the 24,173,000 shares in Lai Fung disposed of prior to the approval of the Group's consolidated accounts for the year ended 31 March 1999, and consider it to be immaterial.

15 Inventories

	Group	
	30 June 2000	31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	6,199	6,587
Work in progress	2,316	3,264
Finished goods	2,039	1,286
Stocks in trade	<u>13,694</u>	<u>16,755</u>
	<u>24,248</u>	<u>27,892</u>

As at 30 June 2000, no inventories were carried at net realisable value (1999: Nil).

16 Accounts payable

Included in accounts payable is trading balance due to an associated company of HK\$5,293,000 (1999: HK\$5,713,000) which is unsecured, interest free and repayable within normal commercial terms.

17 Share capital

	Ordinary shares of HK\$0.1 each	
	No. of shares	<i>HK\$'000</i>
Authorised:		
At 1 April 1999	900,000,000	90,000
Increase in authorised ordinary share capital (<i>Note a</i>)	<u>4,100,000,000</u>	<u>410,000</u>
At 30 June 2000	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 April 1999	588,079,878	58,808
Issue of shares (<i>Notes b & c</i>)	1,269,500,000	126,950
Exercise of share options (<i>Note d</i>)	<u>28,336,000</u>	<u>2,833</u>
At 30 June 2000	<u>1,885,915,878</u>	<u>188,591</u>

- (a) By an ordinary resolution passed on 10 March 2000, the authorised ordinary share capital of the Company was increased from HK\$90,000,000 to HK\$500,000,000 by the creation of 4,100,000,000 ordinary shares of HK\$0.10 each.
- (b) On 4 October 1999, the Company issued 117,000,000 ordinary shares at a premium of HK\$0.02 per share for cash amounting to HK\$14,040,000 as additional working capital. These shares rank *pari passu* with the existing shares.
- (c) On 10 March 2000, the Company allotted and issued 1,152,500,000 ordinary shares at a premium of HK\$0.08 per share for cash amounting to HK\$207,450,000 in order to expand the business of the Group and to conduct and develop internet and internet-related activities. These shares rank *pari passu* with the existing shares.

17 Share capital (Continued)

(d) Share option scheme

On 2 October 1990, at the Extraordinary General Meeting of the Company, the Company adopted a share option scheme (the “Scheme”) under which the directors may, at their discretion, invite any executive director and any senior executive or employee of any of the companies in 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 in respect of which options may be granted under the Scheme may not exceed 10% of the issued ordinary share capital of the Company excluding any ordinary shares issued on the exercise of options from time to time.

On 25 August 1999, the Company granted share options which entitled certain key employees to subscribe for 28,336,000 shares in the Company at any time during the period from 25 September 1999 to 24 August 2000 at a price of HK\$0.10 per share. All share options have been exercised during the period.

On 27 April 2000, the Company granted share options which entitled the holders, including five executive directors and two key employees, to subscribe for 66,260,000 shares in the Company at any time during the period from 27 May 2000 to 26 April 2001 at a price of HK\$2.05 per share. None of these share options have been exercised during the period.

18 Reserves

	Share premium	Capital redemption reserve	Capital reserve	Investment properties revaluation reserve	Investment revaluation reserve	Exchange translation reserve	(Accumulated losses)/ retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group								
At 1 April 1998	186,382	1,819	26,129	8,402	—	(6,808)	(40,410)	175,514
Repurchase of ordinary shares	—	—	—	—	—	—	(59)	(59)
Transfer to capital redemption reserve	—	80	—	—	—	—	(80)	—
Deficit on revaluation of investment properties	—	—	—	(8,402)	—	—	—	(8,402)
Loss for the year	—	—	—	—	—	—	(32,434)	(32,434)
At 31 March 1999	<u>186,382</u>	<u>1,899</u>	<u>26,129</u>	<u>—</u>	<u>—</u>	<u>(6,808)</u>	<u>(72,983)</u>	<u>134,619</u>
Company and subsidiaries	186,382	1,899	26,129	—	—	(6,808)	(74,078)	133,524
Associated companies	—	—	—	—	—	—	1,095	1,095
	<u>186,382</u>	<u>1,899</u>	<u>26,129</u>	<u>—</u>	<u>—</u>	<u>(6,808)</u>	<u>(72,983)</u>	<u>134,619</u>
At 1 April 1999	186,382	1,899	26,129	—	—	(6,808)	(72,983)	134,619
Issue of ordinary shares	94,540	—	—	—	—	—	—	94,540
Share issue expenses	(6,088)	—	—	—	—	—	—	(6,088)
Goodwill arising on acquisition of a subsidiary	—	—	(25)	—	—	—	—	(25)
Capital reserve released to profit and loss account on disposal of a subsidiary	—	—	(11,318)	—	—	—	—	(11,318)
Exchange difference arising on translation of subsidiaries	—	—	—	—	—	425	—	425
Deficit on revaluation of non-trading securities	—	—	—	—	(26,789)	—	—	(26,789)
Loss for the period	—	—	—	—	—	—	(29,829)	(29,829)
At 30 June 2000	<u>274,834</u>	<u>1,899</u>	<u>14,786</u>	<u>—</u>	<u>(26,789)</u>	<u>(6,383)</u>	<u>(102,812)</u>	<u>155,535</u>
Company and subsidiaries	274,834	1,899	14,786	—	(26,789)	(6,383)	(103,839)	154,508
Associated companies	—	—	—	—	—	—	1,027	1,027
	<u>274,834</u>	<u>1,899</u>	<u>14,786</u>	<u>—</u>	<u>(26,789)</u>	<u>(6,383)</u>	<u>(102,812)</u>	<u>155,535</u>

19 Long term liabilities

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Secured bank loans	13,655	18,092
Amounts due within one year included under current liabilities	<u>(3,902)</u>	<u>(3,493)</u>
	<u>9,753</u>	<u>14,599</u>

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

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Wholly repayable within five years	11,745	13,612
Not wholly repayable within five years	<u>1,910</u>	<u>4,480</u>
	<u>13,655</u>	<u>18,092</u>

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

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Within one year	3,902	3,493
In the second year	2,178	3,855
In the third to fifth year inclusive	5,665	6,264
In more than five years	<u>1,910</u>	<u>4,480</u>
	<u>13,655</u>	<u>18,092</u>

20 Deferred taxation

The potential assets/(liabilities) for deferred taxation which have not been provided for in the accounts amount to:

	Group	
	30 June 2000 <i>HK\$'000</i>	31 March 1999 <i>HK\$'000</i>
Accelerated depreciation allowances	(392)	15
Tax losses	<u>13,117</u>	<u>12,530</u>
	<u>12,725</u>	<u>12,545</u>

The revaluation of the Group's investment properties does not constitute a timing difference and consequently, deferred tax thereon has not been quantified.

21 Related party transactions

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

	Period from 1 April 1999 to 30 June 2000 <i>HK\$'000</i>	Year ended 31 March 1999 <i>HK\$'000</i>
Purchases of goods from an associated company	<u>17,057</u>	<u>14,550</u>

Purchases from an associated company 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.

22 Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	Period from 1 April 1999 to 30 June 2000 <i>HK\$'000</i>	Year ended 31 March 1999 <i>HK\$'000</i>
Operating loss	(26,425)	(28,969)
Interest income	(3,048)	(263)
Depreciation charge	12,480	9,720
(Gain)/loss on disposal of fixed assets	(114)	10
Realised/unrealised losses on trading investments	10,231	4,915
Deficit on revaluation of investment properties	9,150	8,548
Gain on disposal of a subsidiary	(11,318)	—
Write-off/amortisation of deferred pre-operating expenses	1,184	770
Dividend income	—	(418)
Decrease in inventories	3,518	5,517
Decrease in accounts receivable	4,585	9,112
Decrease in sundry debtors, prepayments and deposits	3,569	382
Decrease in accounts payable	(2,191)	(7,406)
(Decrease)/increase in other payables and deposits received	<u>(2,321)</u>	<u>7,910</u>
Net cash (outflow)/inflow from operating activities	<u>(700)</u>	<u>9,828</u>

22 Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the period/year

	Share capital, share premium and capital redemption reserve		Minority interests		Short term loans		Long term loans	
	Period from		Period from		Period from		Period from	
	1 April	Year ended	1 April	Year ended	1 April	Year ended	1 April	Year ended
	1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000	1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000	1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000	1999 to 30 June 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
At 1 April 1999	247,089	247,089	34,469	38,748	17,671	10,527	18,092	21,106
Issue of new shares	224,323	—	—	—	—	—	—	—
Share issue expenses	(6,088)	—	—	—	—	—	—	—
Exchange differences	—	—	325	—	—	—	—	—
Minority interests' share of losses	—	—	(2,099)	(1,509)	—	—	—	—
Dividends paid to minority shareholders	—	—	(372)	(2,770)	—	—	—	—
Premium paid on share repurchase	—	59	—	—	—	—	—	—
Capital redemption reserve transferred from accumulated losses	—	80	—	—	—	—	—	—
Loan of a subsidiary acquired during the period	—	—	—	—	2,523	—	—	—
New short term bank loans	—	—	—	—	36,915	42,133	—	—
Repayment of short term and long term loans	—	—	—	—	(56,166)	(34,989)	(4,437)	(3,014)
Repurchase of ordinary shares	—	(139)	—	—	—	—	—	—
At 30 June 2000	<u>465,324</u>	<u>247,089</u>	<u>32,323</u>	<u>34,469</u>	<u>943</u>	<u>17,671</u>	<u>13,655</u>	<u>18,092</u>

22 Notes to the consolidated cash flow statement (Continued)

(c) Purchase of a subsidiary

	Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired		
Fixed assets	11,800	—
Accounts and other receivable	82	—
Other payables	(255)	—
Bank overdrafts	(436)	—
Bank loans	(2,523)	—
Taxation	(66)	—
	<u>8,602</u>	<u>—</u>
Goodwill	25	—
	<u>8,627</u>	<u>—</u>
Satisfied by cash	<u>8,627</u>	<u>—</u>

(d) Analysis of the net cash outflow in respect of the purchase of a subsidiary

	Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	8,627	—
Bank overdrafts	<u>436</u>	<u>—</u>
Net cash outflow in respect of the purchase of a subsidiary	<u>9,063</u>	<u>—</u>

The subsidiary acquired during the period contributed HK\$3,607,000 to the Group's net operating cash flow, paid HK\$259,000 in respect of net returns on investments and servicing of finance, paid HK\$59,000 in respect of taxation and utilised HK\$2,523,000 for financing activities.

22 Notes to the consolidated cash flow statement (Continued)

(e) Sale of a subsidiary

	Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	5	—
Inventories	126	—
Accounts receivable	134	—
Cash and bank balances	1552	—
Accounts and other payables	<u>(1,224)</u>	<u>—</u>
	593	—
Capital reserve	(11,318)	—
Profit on disposal	<u>11,318</u>	<u>—</u>
	<u>593</u>	<u>—</u>
Satisfied by cash	<u>593</u>	<u>—</u>

(f) Analysis of the net cash outflow in respect of the disposal of a subsidiary

	Period from 1 April 1999 to 30 June 2000	Year ended 31 March 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	593	—
Cash and bank balances disposed of	<u>(1,552)</u>	<u>—</u>
Net cash outflow in respect of sale of a subsidiary	<u>(959)</u>	<u>—</u>

23 Principal subsidiaries

The following list contains particulars of subsidiaries of the Group which in the opinion of the directors, materially affect the results and assets of the Group. To give details of other subsidiaries would, in the opinion of directors, result in particulars of excessive length.

Name of company	Place of incorporation/ registration and operations	Issued/ registered share capital/paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Alliance Printing and Manufacturing Company Limited	Hong Kong	Ordinary HK\$6,000,000 Deferred HK\$1,000 (Note 1)	100%	—	Household fabrics and bed linen manufacturing
Asiapeak International Limited	Hong Kong	HK\$2	100%	—	Bed linen manufacturing
Beverley Peak Limited	Hong Kong	Ordinary HK\$10 Deferred HK\$3 (Note 1)	100%	—	Property holding
Cheung Wah Ho Dyestuffs Company Limited	Hong Kong	Ordinary HK\$800,100 Deferred HK\$1,000 (Note 1)	100%	—	Dyestuffs trading
Cheung Wah Jumbo Limited	Hong Kong	HK\$2	100%	—	Investment holding
Cheung Wah Properties Limited	Hong Kong	HK\$2	100%	—	Property investment
China Trade Investment Limited	Hong Kong	HK\$2	100%	—	Property investment
Dorlink Limited	Hong Kong	HK\$10,000	100%	—	Property investment
Dragon Lion Limited	Hong Kong	HK\$2	100%	—	Investment holding
Fine Score Investments Limited	Hong Kong	HK\$2	100%	—	Property investment
*Foshan Chande Knitting Enterprise Company, Limited	PRC	Paid up capital US\$7,100,000	—	51%	Fabric dyeing, knitting and garment manufacturing
Full Success Investments Limited	Hong Kong	HK\$2	100%	—	Property holding
Gesway Investment Limited	Hong Kong	HK\$2	100%	—	Investment holding

23 Principal subsidiaries (Continued)

Name of company	Place of incorporation/ registration and operations	Issued/ registered share capital/paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Glory Venture Investment Limited	Hong Kong	HK\$2	100%	—	General trading
Lancerwide Company Limited	Hong Kong	HK\$10,000	100%	—	Dyestuffs trading
Layet Company, Limited	Hong Kong	Ordinary HK\$1,000 Deferred HK\$10,000 (Note 1)	100%	—	Property investment
Lucky Happy Development Limited	Hong Kong	HK\$100	100%	—	Property holding
Maniway Properties Limited	Hong Kong	HK\$2	100%	—	Property holding
Manstar Properties Limited	Hong Kong	HK\$2	100%	—	Investment holding
Nicken Limited	Hong Kong	HK\$2	100%	—	Property investment
*Peach Garden Country Club (Nanhai) Limited	PRC	Paid up capital US\$4,368,000	—	57.89%	Country club operation
Prime Success Development Limited	Hong Kong	HK\$2	100%	—	Property investment
Rearden Limited	Hong Kong	HK\$10,000	100%	—	Property investment
SBIIS (Nominees) Limited (formerly "Cheung Wah Development (Nominees) Limited")	Hong Kong	HK\$2	100%	—	Provision of nominee services
Takson Limited	Hong Kong	HK\$10,000	100%	—	Investment holding
Tak Wah Ho Dyestuffs Company, Limited	Hong Kong	Ordinary HK\$1,000 Deferred HK\$1,200,100 (Note 1)	100%	—	Dyestuffs trading
Year Ford Industries Limited	Hong Kong	HK\$1,000	100%	—	Property investment

* Subsidiaries not audited by PricewaterhouseCoopers, Hong Kong.

The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers, Hong Kong represented approximately 21% of the Group's total net assets at 30 June 2000.

23 **Principal subsidiaries (Continued)***Notes:*

- (1) The deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the respective subsidiaries and the right to participation in distribution on winding up is also restricted.
- (2) Unless otherwise stated, all subsidiaries issued ordinary share capital.

24 **Capital Commitments**

On 31 March 2000, the Company entered into a final definitive subscription agreement (the "Agreement") with Chinadotcom Corporation ("Chinadotcom") in relation to the share swap arrangement between the two companies. Pursuant to the Agreement, the Company has conditionally agreed to exchange 21,538,035 new shares of the Company for 200,722 new common stock of Chinadotcom. The consideration for the share exchange, which the directors are expecting to occur on or before 30 November 2000, is US\$20,000,000 (approximately HK\$155,000,000). In addition, pursuant to the Agreement, the Company and Chinadotcom have agreed to establish a 50/50 joint venture for the provision of technology and business consultancy services.

25 **Subsequent events**

- (a) On 1 August 2000, the Company subscribed for 600,000 shares of US\$1 each in the capital of Softbank Asia Net-Trans Fund Limited (the "Fund") at a subscription price of US\$10 per share for a total consideration of US\$6,000,000 (approximately HK\$46,500,000). The Company's investment represented approximately 17% of the issued share capital of the Fund, which was established to invest in traditional offline businesses that have the potential to be converted into successful online businesses.
- (b) On 3 August 2000, the Company entered into an agreement for the purchase of 2,000 existing ordinary shares in China Travel Net Limited ("China Travel Net"), representing 10% of its entire issued share capital, for a total consideration of HK\$100,000,000. China Travel Net provides online travel agency services and travel-related application software systems for local and international travel businesses and a government body in Hong Kong.
- (c) On 15 August 2000, the Company entered into a share purchase agreement for the purchase of 1,867,200 existing ordinary shares in Morningstar Asia Limited ("Morningstar"), representing 10% of its entire issued capital, for a total consideration of US\$2,400,000 (approximately HK\$18,672,000). Morningstar will be engaged in the provision of online financial information and services for individuals, intermediaries and institutions in Asia. The completion date for the transaction is expected to occur on or before 31 October 2000.

26 **Ultimate holding company**

The directors regard SOFTBANK CORP., a company incorporated and listed in Japan, as being the ultimate holding company of the Company.

**PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET
TANGIBLE ASSETS OF THE ENLARGED GROUP**

The following is a pro forma statement of unaudited adjusted consolidated net tangible assets of the Enlarged Group assuming that the Acquisition and the Subscription had been completed on 30 June 2000. It is based on the audited net tangible assets of the Group as at 30 June 2000 adjusted to reflect the effect of the Acquisition and the Subscription:—

	<i>HK\$'000</i>
Audited net tangible assets of the Group as at 30 June 2000	344,126
Consideration (<i>note 1</i>)	<u>318,500</u>
Pro forma unaudited adjusted consolidated net assets of the Enlarged Group	662,626
Less: Goodwill arising from the Acquisition (<i>note 2</i>)	<u>(246,427)</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Enlarged Group	<u>416,199</u>
Pro forma unaudited adjusted consolidated net tangible asset value per Share of the Enlarged Group (<i>note 3</i>)	<u>HK\$0.19</u>

Notes:

- 1 The Consideration shall be HK\$318,500,000, comprising HK\$130,000,000 in cash and HK\$188,500,000 in Consideration Shares. The cash consideration shall be financed by the net proceeds of the issue of SIIS Shares ("Subscription Shares") to SBIH pursuant to the Subscription Agreement.
- 2 Goodwill of HK\$246,427,000, representing the excess of the Consideration amounting to HK\$318,500,000 over the Group's share of the net assets of the e2-Capital Financial Services Group as at 31 December 2000 amounting to HK\$72,073,000, arises from the Acquisition. Goodwill arising from the Acquisition will be capitalised and amortised in accordance with the new Statement of Standard Accounting Practice No. 30 "Business Combination".
- 3 The pro forma unaudited adjusted consolidated net tangible asset value per Share of the Enlarged Group is calculated on the basis of 2,210,915,877 Shares, being the number of Shares in issue as at the 30 June 2000 of 1,885,915,878, plus the 192,346,938 Consideration Shares and 132,653,061 Subscription Shares.

**PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED ASSETS AND
LIABILITIES OF THE ENLARGED GROUP**

The following is a summary of the pro forma statement of unaudited adjusted assets and liabilities of the Enlarged Group, assuming that the Acquisition and the Subscription had been completed on 30 June 2000, based on the audited net assets of the Group as at 30 June 2000 extracted from its annual report for the fifteen months ended 30 June 2000 as set out in this Appendix, and the audited net assets of the e2-Capital Financial Services Group as at 31 December 2000 as set out in Appendix I to this circular, adjusted to reflect the effect of the Acquisition and the Subscription:—

	The Group <i>HK\$'000</i>	e2-Capital Financial Services Group <i>HK\$'000</i>	Adjustment <i>HK\$'000</i>	The Enlarged Group <i>HK\$'000</i>
Goodwill (<i>note 1</i>)	—	—	246,427	246,427
Fixed assets	186,377	3,054	—	189,431
Associated companies	1,028	—	—	1,028
Investments in securities	52,000	62,319	—	114,319
Statutory and other deposits	—	4,000	—	4,000
Current assets	<u>209,660</u>	<u>355,774</u>	<u>—</u>	<u>565,434</u>
Total assets	449,065	425,147	246,427	1,120,639
Current liabilities	(62,863)	(279,553)	—	(342,416)
Long-term liabilities	(9,753)	—	—	(9,753)
Minority interests	(32,323)	(4,275)	(69,246)	(105,844)
	<u> </u>	<u> </u>	<u>(note 2)</u>	<u> </u>
Net assets	<u>344,126</u>	<u>141,319</u>	<u>177,181</u>	<u>662,626</u>

Notes:

- Goodwill of HK\$246,427,000, representing the excess of the Consideration amounting to HK\$318,500,000 over the Group's share of the net assets of the e2-Capital Financial Services Group as at 31 December 2000 amounting to HK\$72,073,000, arises from the Acquisition. Goodwill arising from the Acquisition will be capitalised and amortised in accordance with the new Statement of Standard Accounting Practice No. 30 "Business Combinations".
- Being e2-Capital's 49% interests in the e2-Capital Financial Services Group.

INDEBTEDNESS

At the close of business on 31 January 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Enlarged Group had outstanding borrowings of approximately HK\$182,592,000, comprising trust receipt loans of approximately HK\$1,773,000, secured bank loans and overdrafts of approximately HK\$27,430,000, unsecured bank loans of approximately HK\$100,943,000 and amounts due from related companies of approximately HK\$52,446,000. As at the same date, the Enlarged Group had no material capital commitments and contingent liabilities.

The Enlarged Group's banking facilities are secured by properties of the Enlarged Group with net book value of approximately HK\$75,902,000 at 31 January 2001, fixed deposit of HK\$5,000,000 and corporate guarantee of unlimited amount given by e2-Capital.

Save as aforesaid and excluding intra-group liabilities and guarantees, none of the companies in the Enlarged Group had outstanding at the close of business on 31 January 2001 any mortgages, charges, debentures or other loan capital, issued and outstanding or agreed to be issued, bank loans or overdrafts, loans or other similar indebtedness, finance leases or hire-purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

On 29 March 2002, a loan of HK\$100 million granted to the Enlarged Group by The Fuji Bank, Limited will mature. The Directors are of the opinion that the Enlarged Group should be in a position to repay this loan as it is expected that the Enlarged Group will be able to realise adequate proceeds of sale from the streamlining of the Enlarged Group's existing business as the Enlarged Group continues to diversify into Internet-related businesses. The streamlining of the Enlarged Group's business is expected to involve the disposal of non core assets and businesses before the maturity of the above loan.

Taking into account the available banking and other borrowing facilities available to the Enlarged Group and the proceeds of sale that are currently expected to be realised from the sale of the Enlarged Group's non core assets and businesses, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements.

MATERIAL ADVERSE CHANGES

Save as disclosed in this Circular, the Directors are not aware of any material adverse change in the Group's financial or trading position since 30 June 2000, the date to which the latest published audited consolidated accounts of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (other than that in relation to e2-Capital) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>5,000,000,000</u> ordinary shares at HK\$0.1 each	<u>500,000,000</u>
<i>Issued and fully paid up:</i>	
<u>1,885,915,878</u> ordinary shares at HK\$0.1 each	<u>188,591,588</u>

The authorised and issued share capital of the Company upon completion of the Transactions will be as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>5,000,000,000</u> ordinary shares at HK\$0.1 each	<u>500,000,000</u>
<i>Issued and fully paid up:</i>	
<u>2,210,915,877</u> ordinary shares at HK\$0.1 each	<u>221,091,588</u>

All Shares in issue rank *pari passu* in all respects including as to dividends, voting rights and interest in capital.

3. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the Directors and chief executive of the Company and their respective Associates had the following interests in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) which was required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance), or which were required to be

entered in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Name of Director	Number of Shares of the Company		Total
	Personal interest	Corporate interest	
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.

- (b) As at the Latest Practicable Date, the following Directors had interests that were required to be recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance, being share options granted under the Company's share option scheme to subscribe for Shares:

Name of Director	Period during which share option may be exercisable	Price per Share to be paid on exercise of share option	Number of share option granted and not yet exercised
Yoshitaka KITAO	1 Nov 2000 to 31 Oct 2010	HK\$0.48	27,960,000
Hiroyuki NAKANISHI	1 Nov 2000 to 31 Oct 2010	HK\$0.48	20,000,000
Katsuya KAWASHIMA	1 Nov 2000 to 31 Oct 2010	HK\$0.48	15,000,000
Junichi GOTO	1 Nov 2000 to 31 Oct 2010	HK\$0.48	15,000,000
Steve, Ming Jang CHANG	1 Nov 2000 to 31 Oct 2010	HK\$0.48	15,000,000

- (c) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive, or their Associates had or were deemed to have any interests in any securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) which was required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of or Part 1 of the Schedule to the SDI Ordinance) or which was required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which was required to be notified to the Company and the Stock Exchange

pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, and none of the Directors and chief executive of the Company, or their spouse or children under the age of 18, had any right to subscribe for any securities of the Company, or had exercised any such right.

- (d) As at the Latest Practicable Date, none of the Directors had any interests, directly or indirectly, in any assets which have been since 30 June 2000, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (e) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

4. SERVICE CONTRACTS

There are no existing or proposed service contracts between any of the Directors and the Company or any of its subsidiaries respectively, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within two years preceding the date of this circular and are or may be material:

- (1) Subscription Agreement between SBIIH and the Company dated 19 January 2000;
- (2) Subscription Agreement between the Company and More Profit Securities Limited dated 13 September 1999;
- (3) Share Purchase Agreement, further details of which have been included in this circular;
- (4) Shareholders Agreement, further details of which have been included in this circular; and
- (5) Subscription Agreement, further details of which have been included in this circular.

6. SUBSTANTIAL SHAREHOLDERS

Save and except for the following persons who were at the Latest Practicable Date, directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company, so far as the Directors are aware or can be ascertained after reasonable enquiry and according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the Directors are not aware of any persons who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital of the Company:

Name	Corporate Interest	
	Number of Shares	Percentage
SBIH*	777,250,000	41%
SB K&K*	260,000,000	14%

* SBIH is a direct wholly-owned subsidiary of Softbank Investment. SB K&K is a direct wholly-owned subsidiary of Softbank Finance Corp.. Softbank Finance Corp. also owns 85% interests in Softbank Investment and is in turn a direct wholly-owned subsidiary of SOFTBANK CORP..

7. EXPERTS' DISCLOSURE OF INTERESTS, CONSENTS AND QUALIFICATIONS

As at the Latest Practicable Date, Pacific Challenge and Deloitte Touche Tohmatsu had no direct or indirect shareholding in any member of the Group, or any right to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which have been since 30 June 2000, being the date to which the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Pacific Challenge and Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and opinions and references to its name in the form and context in which it appears.

The following are the qualifications of the expert who has given opinions or advice which are contained in this circular:

Name	Qualifications
Pacific Challenge	an investment adviser with the Securities and Futures Commission registered under the Securities Ordinance
Deloitte Touche Tohmatsu	Certified Public Accountants

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

9. MISCELLANEOUS

- (a) The secretary of the Company is Ms. Ho Yuen Fan, A.C.I.S., A.C.S.
- (b) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at the registered office of the Company at 11th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong up to and including 30 March 2001 and at the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) Share Purchase Agreement;
- (c) Shareholders Agreement;
- (d) Subscription Agreement;
- (e) the letter from the Independent Director as set out on page 20 of this circular;
- (f) the letter from Pacific Challenge to the Independent Director as set out on pages 21 to 32 of this circular;
- (g) the written consent referred to in paragraph 7 of this Appendix;
- (h) the material contracts referred to in paragraph 5 of this Appendix;
- (i) the annual report of the Company for the last two financial years; and
- (j) the letter and report on financial information in respect of e2-Capital Securities and e2-Capital Financial Services Group.



Softbank Investment International (Strategic) Limited
(incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Softbank Investment International (Strategic) Limited (the “Company”) will be held at the Chater Room III, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong, on Friday, 30 March 2001 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (i) the subscription of 132,653,061 ordinary shares of HK\$0.10 each in the share capital of the Company by Softbank Investment (International) Holdings Limited pursuant to the Subscription Agreement (as defined in the circular of the Company dated 14 March 2001 (the “Circular”)), a copy of which has been initialled by the Chairman of the Extraordinary General Meeting and marked “A” for the purpose of identification; and
- (ii) without prejudice to the general mandate granted on 25 October 2000 to the directors of the Company to issue and allot ordinary shares of HK\$0.10 each in the share capital of the Company, the issue and allotment of 132,653,061 ordinary shares of HK\$0.10 each in the share capital of the Company at an aggregate subscription price of HK\$130 million pursuant to the Subscription Agreement, details of which are more particularly described in the Circular

be and are hereby approved and the directors of the Company be and are hereby authorised to do all such other acts and things as the directors of the Company consider necessary or expedient to give effect to such issue.”

2. **“THAT** subject to the passing of the resolution numbered 1 as set out in the Notice convening this meeting, the transactions contemplated in, or as may be required pursuant to, the Share Purchase Agreement and the Shareholders Agreement (as defined in the Circular), copies of which have been initialled by the Chairman of the Extraordinary General Meeting and marked “B” and “C” respectively, for the purpose of identification, which transactions include, amongst other matters and without limitation, the following:

- (i) the acquisition (the “Acquisition”) by SBIIS Capital Holdings Limited (“SBIIS CH”), a wholly-owned subsidiary of the Company, of 51% of the issued share capital of e2-Capital Securities (Holdings) Limited (“e2-Capital Securities”) for a consideration of HK\$318.5 million which is to be satisfied by the payment of HK\$130 million in cash by SBIIS CH to Goodwill Investment (BVI) Limited (“Goodwill”) and the

NOTICE OF EXTRAORDINARY GENERAL MEETING

remaining balance of HK\$188.5 million to be satisfied by the issue of and delivery by the Company to Goodwill or its nominee of an aggregate of 192,346,938 ordinary shares of HK\$0.10 each in the share capital of the Company in accordance with the terms of the Share Purchase Agreement;

- (ii) in connection with the Acquisition and without prejudice to the general mandate granted on 25 October 2000 to the directors of the Company to issue and allot ordinary shares of HK\$0.10 each in the share capital of the Company, the issue and allotment of an aggregate of 192,346,938 ordinary shares of HK\$0.10 each in the share capital of the Company to Goodwill or its nominee in accordance with the terms of the Share Purchase Agreement;
- (iii) the Shareholders Agreement entered into between Softbank Investment Corporation, Softbank Finance Corporation, SBIIS CH, e2-Capital (Holdings) Limited, Goodwill, e2-Capital Securities and the Company which regulates, amongst other things, the respective rights and obligations of SBIIS CH and Goodwill in respect of the management and operation of e2-Capital Securities and its subsidiaries; details of which are more particularly described in the Circular; and
- (iv) the granting by the Company of a guarantee (“MAS Guarantee”) in favour and for the benefit of the Monetary Authority of Singapore (“MAS”) in respect of the obligations and liabilities of e2-Capital Pte Ltd and the granting by the Company of an indemnity (“SIIS Indemnity”) in favour of e2-Capital (Holdings) Limited in respect of a guarantee dated 7 November 2000 given by e2-Capital (Holdings) Limited (the “e2-Capital Guarantee”) in favour of and for the benefit of the MAS in respect of the obligations and liabilities of e2-Capital Pte Ltd provided always that the liability of the Company under the SIIS Indemnity shall not exceed an amount equal to 51% of any payment which may be made by e2-Capital (Holdings) Limited to the MAS pursuant to the e2-Capital Guarantee

be and are hereby approved and that the directors of the Company be and are hereby authorised to do such acts or execute such other documents on behalf of the Company which they may consider necessary, desirable or expedient to carry into effect or to give effect to the terms of the Share Purchase Agreement, the Shareholders Agreement, the MAS Guarantee and the SIIS Indemnity and all transactions contemplated thereunder or as may be required to effect the completion thereof.”

By Order of the Board

Yoshitaka Kitao

Chairman, President and Chief Executive Officer

Hong Kong, 14 March 2001

Registered office:

11th Floor, Man Yee Building
60-68 Des Voeux Road Central
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the registered office of the Company at 11th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney no less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (2) A form of proxy for use at the meeting is enclosed.
- (3) In case of joint holders of a share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he was solely entitled thereto. However, if more than one such joint holders are present at the meeting personally or by proxy, then one of such holders whose name stands first in the register of member of the Company shall alone be entitled to vote in respect of that share.

SOFTBANK

INVESTMENT

International (Strategic) Limited

Softbank Investment International (Strategic) Limited

(incorporated in Hong Kong with limited liability)

Form of proxy for use at the Extraordinary General Meeting

I/We¹ _____
of _____

being the registered holder(s) of² _____ shares of HK\$0.10 each in the capital of the
above-named company (the "Company"), HEREBY APPOINT³ _____

of _____
or failing him/her, the Chairman of the meeting on my/our behalf at the said meeting of the Company to be held at the Chater Room III, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Friday, 30 March 2001 at 10:30 a.m. in respect of the resolutions set out in the notice convening the said meeting as hereunder indicated, and, if no such indication is given, as my/our proxy thinks fit.

ORDINARY RESOLUTIONS	For ⁴	Against ⁴
1. To approve (i) the subscription of 132,653,061 ordinary shares of HK\$0.10 each in the share capital of the Company by Softbank Investment (International) Holdings Limited ("SBIH") pursuant to a subscription agreement dated 31 January 2001 and made between SBIH and the Company (the "Subscription Agreement"); and (ii) the issue and allotment of 132,653,061 ordinary shares of HK\$0.10 each in the share capital of the Company at an aggregate subscription price of HK\$130 million pursuant to the Subscription Agreement.		
2. To approve the transactions contemplated in, or as may be required pursuant to, a share purchase agreement dated 31 January 2001 (the "Share Purchase Agreement") and made between Goodwill Investment (BVI) Limited ("Goodwill"), SBIIS Capital Holdings Limited (a wholly owned subsidiary of the Company) ("SBIIS CH") and the Company relating to the acquisition by SBIIS CH of 51% of the issued share capital of e2-Capital Securities (Holdings) Limited ("e2-Capital Securities"), and a shareholders' agreement dated 31 January 2001 (the "Shareholders Agreement") and made between, amongst others, SBIIS CH, Goodwill, the Company and e2-Capital (Holdings) Limited; and to authorise the directors of the Company to do such acts or execute such other documents on behalf of the Company which they may consider necessary, desirable or expedient to carry into effect or give effect to the terms of the Share Purchase Agreement and the Shareholders Agreement including (but without limitation): (i) the acquisition by SBIIS CH of 51% of the issued share capital of e2-Capital Securities for a consideration of HK\$318.5 million pursuant to the Share Purchase Agreement; (ii) the issue and allotment of an aggregate of 192,346,938 ordinary shares of HK\$0.10 each in the share capital of the Company to Goodwill or its nominee in accordance with the terms of the Share Purchase Agreement; (iii) the Shareholders Agreement which regulates, amongst other things, the respective rights and obligations of SBIIS CH and Goodwill in respect of the management and operation of e2-Capital Securities and its subsidiaries; and (iv) the granting by the Company of a guarantee in favour and for the benefit of the Monetary Authority of Singapore ("MAS") in respect of the obligations and liabilities of e2-Capital Pte Ltd and the granting by the Company of an indemnity ("SIIS Indemnity") in favour of e2-Capital (Holdings) Limited in respect of a guarantee dated 7 November 2000 given by e2-Capital (Holdings) Limited (the "e2-Capital Guarantee") in favour of and for the benefit of the MAS in respect of the obligations and liabilities of e2-Capital Pte Ltd provided always that the liability of the Company under the SIIS Indemnity shall not exceed an amount equal to 51% of any payment which may be made by e2-Capital (Holdings) Limited to the MAS pursuant to the e2-Capital Guarantee.		

Dated this _____ day of _____ 2001 Signature _____

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, please insert the name and address of the proxy desired in the space provided. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
4. IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTION, TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST ANY RESOLUTION, TICK IN THE BOX MARKED "AGAINST". Failure to tick a box will entitle your proxy to cast your vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than those referred to in the notice convening the meeting.
5. To be valid, this form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, shall be deposited at the registered office of the Company at 11th Floor, Man Yee Building, 60-68 Des Voeux Road Central, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in the proxy proposes to vote.
6. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised.
7. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register. Several executors or administrators of a deceased member in whose name any share shall for these purposes be deemed joint holders thereof.
8. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.