



**SOFTBANK INVESTMENT INTERNATIONAL (STRATEGIC) LIMITED**

**軟庫發展有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(HKSE: 00648)**

**2004 INTERIM RESULTS**

The board of directors (the “Board”) of Softbank Investment International (Strategic) Limited (the “Company”) is pleased to announce a summary of the interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 as follows:

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

**NOTES:**

**1. Accounting policies**

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

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

**2. Turnover and segment information**

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

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

**Primary reporting format-Business segments**

For six months ended 30 June 2004

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

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

For six months ended 30 June 2003

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

### 3. Profit/(loss) before taxation

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

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

*Note:*

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

### 4. Taxation

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

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

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

## 5. Earnings/(loss) per share

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

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

## RESULTS AND DIVIDENDS

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

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

## BUSINESS REVIEW

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

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

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

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

## **1. Investment Holding Division**

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

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

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

In January 2004, the Group entered into a subscription agreement and shareholders agreement with independent third parties with regard to the shareholding of M DREAM CHINA (HOLDINGS) LTD ("M DREAM CHINA"). Following the completion of the agreements in May 2004, each of the Group and Softbank Asia Net Trans Fund (which is managed by the Group) now has a 17.5% interest in M DREAM CHINA. M DREAM CHINA is the 100% holding company of Hangzhou M Dream Co., Ltd., a company which specializes

in the development, manufacturing and provision of services for mobile entertainment games software which are currently available over China Mobile and China Unicom's mobile platforms in China. The Group believe that the mobile games sector in China has tremendous growth opportunity and that M DREAM CHINA has the potential to be the dominant player within this field.

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

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

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

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

#### *Subsequent Events*

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

2004. Also in July 2004, the Group entered into an agreement with PhilWeb Corporation to acquire approximately 7.6% interest in ISM Communications Corporation (“ISM”) at the same consideration. The shares of ISM and PhilWeb are listed on the Philippine Stock Exchange.

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

## **2. Financial Services Division**

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

### **HK/China**

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

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

### *Stock and futures broking*

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



### *Investment banking*

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

### *Margin financing*

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

### *Research*

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

### **Singapore**

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

### *Subsequent Event*

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

### **3. Media, Consulting, Marketing and Technology Services Division**

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

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

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

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

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

Sun-Tech International Group Limited, the manufacturer and worldwide distributor of education technology products, is continuing its global marketing campaign. Sun-Tech’s US service center was invited by Intel to demonstrate their product lines at various nationwide Intel Channel Conference events. In the second half of 2004, Sun-Tech’s products will be

presented in three leading technology exhibitions; namely GITEX Dubai (UAE), Worlddidac in Basel (Switzerland) and Educatec in Paris (France). New products that will be launched include the children's Internet access guardian, which aims to help parents tackle the children's Internet addiction problem, and which will also pave the way for Sun-Tech's expansion from the educational market into the lucrative home-user market.

#### **4. Garment Manufacturing Division**

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

#### **5. Property Holding Division and Others**

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

### **PROSPECTS**

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

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

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

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

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

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

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

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

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

## **CHARGES ON GROUP ASSETS**

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

## **CONTINGENT LIABILITIES**

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

## **EMPLOYEES AND REMUNERATION POLICY**

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

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

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

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim accounts for the six months ended 30 June 2004. At the request of the Audit Committee, the Group's external auditors have carried out a review of the unaudited interim accounts in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

## **CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") at any time during the period.

## **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By Order of the Board  
**Wong Sin Just**  
*Executive Director*

Hong Kong, 25 August 2004

As at the date of this announcement, the Board comprises 4 executive directors; namely, Messrs Yu Kam Kee, Lawrence, Wong Sin Just, Wong Kean Li and Wang Ruiping, 1 non-executive director; namely, Mr Yu Kam Yuen, Lincoln and 2 independent non-executive directors; namely, Dr Lo Wing Yan, William and Mr Chan Kai Yu, Rudy.

Please also refer to the published version of this announcement in International Herald Tribune.