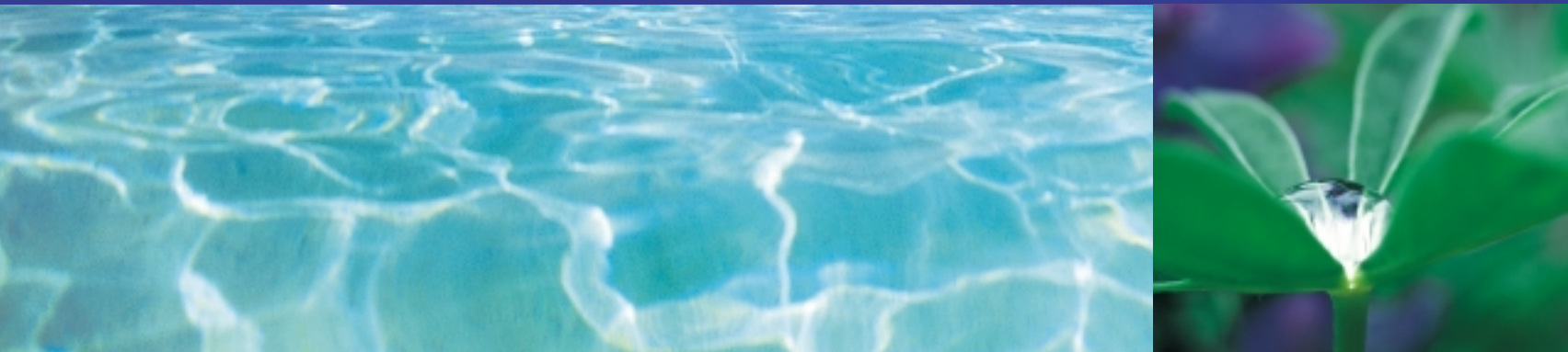


We are pleased to report that, despite some of the worst market conditions seen in years, the Group remained profitable during the year ended 31 December 2001, was able to deliver return to shareholders and achieved steady growth amidst a number of strategic corporate developments.

## MANAGEMENT DISCUSSION AND ANALYSIS



### MOMENTUM

During the year, the Group formed a financial services joint venture with Softbank Investment International (Strategic) Limited (“Softbank Strategic”) under the name SBI E2-Capital Limited. Furthermore, having fully consolidated and integrated its management consulting, marketing and technology services, thereby positioning the division as a one-stop-shop professional services unit under the brand name ebizal (the “ebizal business”) in the first half of the year, it subsequently entered into a strategic business realignment with Softbank Strategic in the latter part of the year and announced the sale of the packaged ebizal business to Softbank Strategic. In return the Group received the entire equity interest in the dyestuffs operations of Softbank Strategic (the “Dyestuffs Companies”) plus a payment of cash.

Corporate developments during the year under review led to several further strategic changes in the Group’s business model and business mix, including the identification of new sources of income and a progress to strategically divest non-core activities. This positive approach resulted in a broader revenue base, which grew to HK\$348 million from HK\$267 million last year. This increase in revenue, together with a net investment gain of HK\$127 million, resulted in an operating profit, before provision for impairment of goodwill, of HK\$74 million, for the year ended 31 December 2001, compared with HK\$68 million last year. Going forward, all business units are now positioned with financial and fiscal independence. The Group will continue with its practice of optimising staff and operating resources and of leveraging business acumen across its various divisions.

Strategic changes in 2001 have enhanced and further strengthened the Group’s overall business structure from the level at which it was operating last year, laying the ground for sustainable growth in today’s challenging business environment.

*“...continuing  
to evolve our  
operation to  
that of an  
international  
investment  
holding  
company...”*

# MANAGEMENT DISCUSSION AND ANALYSIS

An overall net Group profit of HK\$35 million for the year ended 31 December 2001, compared with HK\$66 million achieved last year, demonstrates the resilience of the Group in an acknowledged difficult market. Consolidated shareholders' funds increased by 4%, standing at HK\$993 million at 31 December 2001, compared with HK\$953 million at 31 December 2000. Gearing stood at 20% at 31 December 2001, compared with 48% at the end of 2000, and the Group's asset backing was strengthened with net tangible assets per share up from HK\$0.83 at 31 December 2000 to HK\$0.85 at 31 December 2001.

In line with its corporate mission, the Group will continue to strive towards rewarding its shareholders through returns from its continuing operations as well as from investment gains. Dividends for the year totaled HK\$14.3 million (2000: HK\$34.4 million) comprising an interim dividend of 1 HK cent per share and proposed final dividend of 0.25 HK cent per share, totaling respectively HK\$11.4 million and HK\$2.9 million.

To protect and further enhance shareholder value, the Group will continue to exercise a strategic and prudent approach to allocating capital to individual business units, whilst retaining a high level of financial liquidity to ensure strong financial flexibility at Group holding company level.

## Investment Banking and Broking Services

In early 2001, the success of the Group's financial services arm attracted the interest of Softbank Strategic and the synergy expected from closer business cooperation between the two parties, led to the formation of a 51% - 49% joint venture ("SBI E2-Capital" or the "JV") between Softbank Strategic and the Group, under the name SBI E2-Capital Limited ("SBI E2-Capital") on 2 April 2001. This transaction led to a net investment gain of HK\$240 million for the year ended 31 December 2001.

During 2001 (including nine months of operation as JV), SBI E2-Capital maintained steady progress in its investment banking and broking services, extended its portfolio to include asset management, and expanded geographically to gain access to a wider range of local, regional and international business opportunities.

The Group's investment banking activities performed well under the new JV structure, despite changing and challenging market conditions and maintained stable growth. Revenue stood at HK\$55 million compared with HK\$19 million last year.

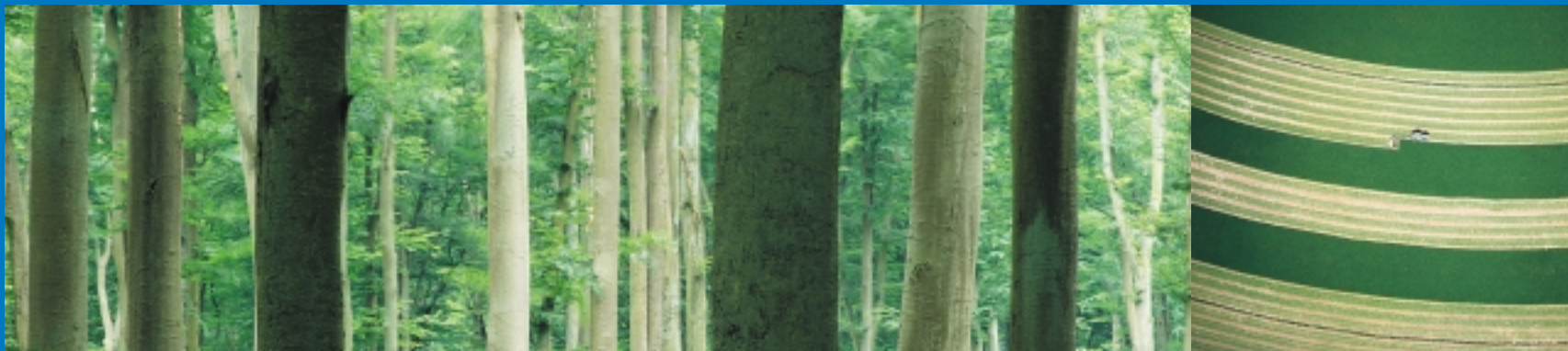
The JV successfully operates a division in the Singapore market under the name SBI E2-Capital Pte Limited ("SBI E2-Capital Singapore"), which in December 2000 it became the first independent corporate finance house, unlinked to any brokerage or bank, licensed by the Monetary Authority of Singapore ("MAS") to lead-manage IPOs and to function as Financial Adviser in M&A transactions. Since receiving this endorsement, SBI E2-Capital Singapore has achieved its target of launching six IPOs on both the Singapore Main Board and SESDAQ Exchanges in 2001 and has lead-managed four out of a total of nine IPOs in Singapore's capital markets in the first quarter of 2002. Notably, SBI E2-Capital Singapore was granted a Dealer's License by the MAS in December 2001 permitting it to deal in securities, organise underwriting and

placement syndicates in IPOs, broker private equity fund raising and to act for offerors in take-over transactions in Singapore.

In December 2001, SBI E2-Capital (USA) Limited, the Group's pre-existing financial services operations based in Newport Beach, California, formed a strategic alliance with Nasdaq listed US-based vFinance, Inc., a rapidly growing and fully licensed dealer broker, financial services firm, thereby further strengthening the Group's regional and global underwriting capability and distribution network in anticipation of the need to provide greater breadth and depth of services to clients as the Group's business activities progress and expand.

Moving to the broking services arena, unchecked volatility in the securities market, particularly encountered in the second half of the year, did not expose SBI E2-Capital Securities Limited to any significant credit risk throughout the year, although the division's market share dropped slightly. Continued steady performance in this sector is reflected by the profit before tax for the year, which was HK\$9 million. The figure for last year was HK\$24 million, when market conditions were on the whole significantly more favourable for the sector. Throughout the period the division participated actively in the IPO financing arena, where business performance contributed 15% to the division's profit before tax.

*“...enhancing  
E2VA™ remains  
at the top of our  
corporate  
agenda...”*



#### RESOURCES

Although deregulation of brokerage commission has been deferred to 2003, the division remains cautiously alert to the consequences of a possible prolonged contraction in the volume of securities trading and an increase in competition to service the investment community. The Group was encouraged to see the China Securities Regulatory Commission grant a subsidiary of the JV a license to act as a brokerage house in the B share market and as a lead manager in the issue of B shares in the PRC.

#### Research

The division expanded its research coverage from that of technology companies to include media, telecom, industrial and consumer companies,

# MANAGEMENT DISCUSSION AND ANALYSIS

covering in particular those that are operating in Greater China, and has led to an increase in the volume of research commentary delivered during the period under review.

The increase in research coverage on PRC corporates signifies a commitment to better understanding players and trends within the PRC market and to highlighting them in order to bring them to international capital markets. In this regard, it was indeed gratifying that the division received notable company and individual rankings in both the *asiamoney* 2001 and The Asset 2001 Broker Polls, with The Asset also voting it as second best local house in Hong Kong.

## Asset Management

In April 2001, SBI E2-Capital expanded its financial business horizon to the asset management arena with the establishment of a new subsidiary, SBI China Provident Capital Management Limited (“SBI China Provident”). SBI China Provident intends to manage a family of total return funds focusing on the Asia Pacific region. In December 2001 it launched “The SBI Asian Total Return Portfolio”, a fund that aims to achieve an absolute US Dollars gain rather than simply mimic or beat relevant asset classes’ indices.

## Online Primary Offerings

OpenIBN Technology Holdings Limited (“OpenIBN Technology Group”, now known as OpenOffering Technology Limited), Asia’s first electronic share placement platform operator, launched by the Group in November 2000, grew its business steadily during the period and expanded its broker network geographically during the year to include, the USA and Europe, thereby providing our clients with several new global distribution avenues. Indeed, throughout the period, a significant number of professional and institutional investors actively participated online in the primary offering transactions that the Group was involved in.

In June 2001, OpenIBN Technology Group announced the acquisition of a 100% interest in GlobalOffering.com Limited (previously of techpacific.com Limited), an online marketing company servicing the investment banking community, with an objective to position itself to host online IPO / Primary Offering road shows by applying the latest web casting technology. As consideration, techpacific.com Limited received new shares in OpenIBN Technology Group, thereby securing an interest in the merged entity and reducing the Group’s own interest to 70%. The acquisition, completed in September 2001, saw the merged entity operating under the name OpenIBN Technology Group. Transactions conducted throughout 2001 included the notable IPO for iLink Holdings Limited, PCCW Group’s first spin-off, in March 2001; the Greencool Technology Holdings US\$32 million placement in June 2001 and the Zhejiang Glass Company, US\$68 million IPO in December 2001. OpenOffering Technology Limited participated in nine other Equity Capital Markets fund-raising transactions during the year under review.

## Consulting, Marketing and Technology Services

In June 2001, ebizal Group Limited (“ebizal”, now known as Smart Universe Group Limited) was formed to provide clients with one-stop-shop professional, integrated consulting, marketing, and technology services. ebizal comprises ebizal Consulting, the management consulting arm of the Group, ebizal Marketing, a specialist public and investor relations and consumer branding consultancy acquired by the Group in April 2000, and ebizal Technology, an award-winning technology services provider acquired by the Group in February 2001.

The Group is pleased to report that ebizal Marketing sustained its market position and expanded its core competencies to the integrated marketing arena. During the same period, ebizal Technology’s subsidiary, Sun-Tech Business Systems Limited (“Sun-Tech”), developer of the Multi-Media Learning Centre (MMLC) solution, was appointed by the Quality Education Fund of the Hong Kong SAR Government as one of three approved suppliers of MMLC.

In response to a longer than expected protracted downturn in the B2B consulting business, in particular in the area of Internet services and e-commerce, the Group applied a number of strategic and tailored measures to further consolidate capabilities, streamline operations and rationalise costs across the three divisions of ebizal, thereby ensuring the unit’s self-sufficiency.

On the whole, the period saw the newly integrated ebizal build a reputable client base comprising some of the world’s foremost companies, including international corporate and financial entities, MNCs and local industry leaders and a broadening and strengthening of its future business outlook.

As part of a strategic business realignment by both Softbank Strategic and the Group, Softbank Strategic announced its intention in 2001 to acquire 100% of the Group’s interest in the ebizal business. In satisfaction of the purchase consideration, the Group received the entire equity interest in the dyestuffs operation of Softbank Strategic and a balance payment in cash. The transaction was completed in January 2002.

## Life Sciences Advisory

Driven by a shared interest to develop biochip technology and accelerate screening of new drugs, E2-Capital’s Life Sciences Advisory Group (formally known as e2 BioTech Advisory Group Limited) invested HK\$5 million (a 6.5% interest) to form a joint venture, ChipScreen BioScience Limited, with six other pharmaceutical, investment and technology companies based in the PRC, Hong Kong and Singapore. Patented ChipScreen technology developed by the Biochip Research Institute at Beijing’s renowned TsingHua University will be employed to promote market acceptance and the use of Traditional Chinese Medicine throughout Asia and beyond.

In May 2001, to further enhance the Group’s involvement in the life sciences field, it subscribed for US\$1 million convertible notes in World Pioneer Limited, a Hong Kong based company which carries out research and development as well as manufacturing and marketing of generic pharmaceuticals in the PRC and Hong Kong. This initiative has spearheaded investment and advisory activities in the Biotechnology arena and

# MANAGEMENT DISCUSSION AND ANALYSIS

the business environment is now displaying more appetite for this sector. Indeed, the Group believes that there is tremendous potential for this industry and expects to see returns on its existing investments.

## Industrial

The Group's industrial business, operated through Winbox Company Limited ("Winbox"), remained stable and profitable despite the depressed market, and led to a profit before tax of HK\$16 million, compared with HK\$25 million last year.

In May 2001, in accordance with the February 2000 Boxmore Option Agreement, Goodwill International (Holdings) Limited ("Goodwill International"), a substantial shareholder of the Group, exercised its option to acquire 50% of the total issued share capital of Boxmore at a consideration of HK\$50 million. As a result, the Group's interest in Boxmore was reduced from 88% to 38%. The Group will, however, continue to enjoy dividend returns and for the year under review, Winbox declared a dividend of HK\$30 million.

Leveraging the Group's experience in the PRC manufacturing and distribution arena, the Group is confident that the acquisition of the total dyestuffs operation from Softbank Strategic will positively enhance as well as increase the depth and breadth of the overall products and services offered by its Industrial division.

## Property

Goodwill Properties Limited ("GPL"), the Group's property division, was relatively active in 2001 and this was mainly attributed to both the noticeable improvement of the Hong Kong property market in the second half of 2001 and the booming PRC property market throughout the whole year.

During the year, Vision Court, the Group's residential project along Prince Edward Road West in Kowloon Tong was completed. The pre-sale was remarkably well received by the market with sales surpassing the performance of other major developments in the vicinity.

The residential development at Fairview Park Boulevard in Yuen Long, consisting of 30 luxurious villas with GFA 6,000m<sup>2</sup> is presently under construction and will be completed in the fourth quarter of 2002. The pre-sale of 1-3 Po Shan Road in Midlevels, a luxurious residential development jointly developed with Sun Hung Kai Properties, will commence mid 2002.

The PRC property market was very active in 2001 and the Group achieved remarkable results in the pre-sale of villas in Tianma Project in Shanghai. The Tianma Project comprises 200 luxurious villas, a 27-hole golf course and a country club. GPL has extended its scope of business to other property and environment related projects, such as a centralized drinking water purification system. This system has been installed in some popular developments in Guangzhou and Shanghai, and will be extended to Shenzhen and Beijing.

## Liquidity and financial resources

As at 31 December 2001, the Group's cash and other short-term listed investments totaled HK\$131 million (31 December 2000: HK\$372 million). This pool of liquid assets and marketable securities well exceeded the Group's total short-term borrowings from banks and financial institutions of HK\$75 million (31 December 2000: HK\$138 million).

Of the total amount of HK\$123 million bank borrowings, approximately 89% are loans secured by properties under development located in Hong Kong, 9% are loans secured by shares in a subsidiary while the remaining are loans secured by mortgage loans receivable. Of these borrowings, HK\$75 million is repayable within 1 year, HK\$43 million is repayable within 2 to 5 years and HK\$5 million is repayable after 5 years.

The Group actively managed its financial resources during the year, resulting in further improvement in the gearing ratio, namely from 30 June 2001 of 27% to 20% at 31 December 2001, calculated on the basis of the Group's total debts over shareholders' fund, and showing significant improvement when compared to the gearing ratio of 48% as at 31 December 2000.

With cash and marketable securities on hand as well as available banking facilities, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

## Capital structure of the Group

Substantially all the transactions of the Group are denominated in Hong Kong Dollars and the Group maintains its cash balances mainly in Hong Kong Dollars.

The Group's borrowings are all denominated in Hong Kong Dollars and on a floating rate basis. As the tenure of a substantial amount of our borrowings is matched against the development period of the projects in progress, the Group has limited exposure to interest rate fluctuations.

*“...realignment  
of business  
interests  
positively  
impacted our  
overall financial  
position...”*

FOUNDATIONS



## Changes in the composition of the Group during the year

- (a) On 31 January 2001, the Group, SBIIS Capital Holdings Limited (“SBIIS”) and Softbank Strategic entered into a share purchase agreement pursuant to which the Group agreed to dispose of 51% interest in the financial services business to SBIIS for a consideration of HK\$318.5 million. The transaction was completed on 2 April 2001 and the consideration was satisfied by the payment of HK\$130 million in cash and the remaining balance of HK\$188.5 million by the issue of 192,346,938 Softbank Strategic shares.
- (b) On 26 February 2000, Goodwill International (BVI) Limited (“Goodwill International BVI”) and Crebox Limited (“Crebox”) (both are indirect wholly-owned subsidiaries of the Company) together with the Company as warrantor granted to Goodwill International an option to acquire up to an aggregate of 6,502,672 shares in the issued share capital of Boxmore Limited (“Boxmore”), an indirectly owned subsidiary of the Company prior to 15 June 2001, representing 88% of Boxmore’s issued share capital (“Boxmore Option”). The Boxmore Option was exercisable from 17 April 2000 to 16 April 2001 at the total price of HK\$88,000,000 for the 88% interest in Boxmore (or part thereof on a pro rata basis) to be settled in cash.

On 19 March 2001, the Group entered into an extension agreement (the “Extension Agreement”) with Goodwill International, pursuant to which the exercise period of the Boxmore Option was extended for 3 months to 16 July 2001 (the “Extension”). No consideration was involved in the Extension. The Extension Agreement was approved by the shareholders of the Company on 12 April 2001.

On 23 May 2001, Goodwill International served a written notice on the Company, Goodwill International BVI and Crebox in accordance with an agreement dated 26 February 2000, as supplemented by the Extension Agreement, in relation to the granting of the Boxmore Option to exercise the option to acquire a 50% interest in Boxmore owned by the Group at a consideration of HK\$50,000,000. The transaction was completed on 15 June 2001.

- (c) On 19 January 2001, Alfa Com Technology Limited (“Alfa Com Technology”), Alfa Com Cyber Base Limited (“Alfa Com Cyber”), e-Applications Group Limited (“e-Applications”), an indirect wholly-owned subsidiary of the Company, and ebizal Limited (now known as Smart Universe Group Limited), an indirect wholly-owned subsidiary of the Company, entered into an agreement pursuant to which Alfa Com Technology and Alfa Com Cyber agreed to sell and e-Applications agreed to purchase 49% of the entire issued share capital of Alfacom Web Development Limited (now known as Smart Universe Technology (Hong Kong) Limited) for a consideration of HK\$19,110,000. The transaction was completed on 20 February 2001.
- (d) On 14 September 2001, the Group acquired the entire shareholding in GlobalOffering.com Limited from techpacific.com Limited, a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited for a consideration of USD3 million. The consideration was satisfied by the issuance of new shares in OpenIBN Technology Holdings Limited (“OpenIBN”, now known as OpenOffering Technology Limited), an indirect wholly-owned subsidiary of the Company, representing a 30% interest in OpenIBN’s enlarged issued share capital. The transaction was completed on 19 September 2001.



## Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 31 December 2001, the Group, including Directors and its subsidiaries but excluding associates, employed a total of 109 full-time employees. The Group operates different remuneration schemes for client service staff and for client support and general staff. Client service personnel are remunerated on the basis of on-target-earning packages comprising salary and/or commission. Client support and general support staff are offered year-end discretionary bonuses subject to individual performance and/or the business result of the company. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$72.8 million for the period. The Group ensures that the remuneration paid to its employees is competitive and employees are rewarded within the general framework of the Group's salary and bonus system. The Company has a share option scheme under which the directors may, at their discretion, invite employees of the Company and its subsidiaries, including full time executive directors, to take up options to subscribe for shares, which in aggregate, may not exceed 10% of the issued share capital of the Company from time to time. Details of the share option scheme are mentioned under the Directors' Report.

## Details of the charges on Group assets

Properties under development and shares of a non-consolidated subsidiary with an aggregate value of approximately HK\$358 million have been pledged to secure the general banking facilities granted to the Group of HK\$120 million.

In addition, a loan of HK\$2.4 million was secured by the mortgage loans receivable of a subsidiary amounting to approximately HK\$3.4 million

## Contingent liabilities

Corporate guarantees proportionate to the Group's interest, were given to financial institutions for working capital facilities of associated companies and investee companies in addition to collaterals given by these companies. The aggregate amount of such facilities utilised by these companies at 31 December 2001 amounted to HK\$14 million.

In addition, the Company provided a guarantee to the MAS in respect of the obligations and liabilities of an indirect associated company of the Company, SBI E2-Capital Pte Limited, proportionate to the Company's interest. As at 31 December 2001, the shareholders' fund and total liabilities of SBI E2-Capital Pte Limited were HK\$12,466,000 and HK\$2,709,000 respectively.

## Exposure to fluctuations in exchange rates and related hedges

The Group's borrowings are primarily denominated in Hong Kong Dollars. The Group has no significant exposure to foreign exchange fluctuations.

# MANAGEMENT DISCUSSION AND ANALYSIS

## In Summary

The Group recorded satisfactory performance in 2001 despite challenging market conditions, especially in the second half of the year. The Group will continue to exercise caution and prudence in its business undertakings and will strengthen its risk management thereof. It will continue to integrate its business interests and specialist activities and will look to strengthening its presence in both developed markets such as the USA and Japan and emerging markets such as the PRC, across a selective range of promising sectors.

DIRECTION



*“...adjusting and fine-tuning to emerge as a financially sound and professionally competitive player in a noticeably changed economic landscape...”*