MANAGEMENT DISCUSSION AND ANALYSIS

Despite some of the worst market conditions seen in years, and current uncertainty in respect of the economic recovery, E2-Capital (Holdings) Limited ("E2-Capital", the "Group") managed to contain its operating overheads amidst severe pressure on revenue margins and business volume to record a loss of HK$422,000 for the six month period ended 30 June 2002.

Notwithstanding the loss recorded for the period, strategic changes alongside prudent risk management and stringent cost control, have enhanced and further strengthened the Group's overall business structure from the level at which we were operating in previous years, laying the ground for sustainable growth in today's challenging business environment.

Having formed our financial services joint venture, SBI E2-Capital Limited ("SBI E2-Capital"), with Softbank Investment International (Strategic) Limited ("Softbank Strategic") last year, as well as integrated our management consulting, marketing and technology services under the "one-stop" professional services unit, ebizal ("the ebizal business") subsequently acquired by Softbank Strategic in exchange for, as part payment, the entire Dyestuffs operation of Softbank Strategic, the Group has entered its new financial year positioned as an investment holding company focusing on the industrial sector augmented by our ongoing interest in financial services and property activities.

Following the formation of SBI E2-Capital, its results has been equity accounted for by the Group. Accordingly, our revenue for the six months period ended 30 June 2002 of HK$85 million (2001: HK$121 million) has excluded the revenue of SBI E2-Capital. This revenue, together with realised net investment gain of HK$10.7 million and provision for investment in securities of HK$4 million respectively, resulted in an operating loss of HK$6 million for the period compared to an operating profit of HK$52.6 million for the same period last year. An overall net loss of HK$0.4 million for the period ended 30 June 2002 (2001: HK$33 million profit) demonstrates the resilience of the Group in this acknowledged difficult market.

Notwithstanding the loss for the period, due to effective cash management, consolidated shareholders' funds increased by 1%, standing at HK$999 million at 30 June 2002, compared with HK$993 million at 31 December 2001. Gearing stood at 17% at 30 June 2002, compared with 20% at the end of 2001, and the Group's asset backing remained strong with net tangible assets per share of HK$0.85 at 30 June 2002 (HK$0.85 at 31 December 2001).

Going forward, all of our business units will continue to be assessed on the merits of their achievable financial and fiscal independence and we will continue with our Group-wide practice of optimising staff and operating resources and of leveraging business acumen across our various divisions so as to enhance the Group's E2VA.

In this regard, the Group has implemented a comprehensive "top-down" investment and cost rationalisation programme with a view to disposing of assets which do not generate optimum economic value as well as tailoring the product and service delivery and support structure to meet operating requirements. As a result of these measures, inflows from investing activities increased by HK$34 million to HK$6.9 million (30 June 2001: outflow of HK$27.1 million) and net cash outflows from operating activities were reduced by HK$70.9 million to HK$43.8 million (30 June 2001: outflow of HK$114.7 million).

To protect and further enhance shareholder value, we 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. In appreciation of the continued support from our shareholders, the Group has declared an interim dividend of 0.25 HK cent (2001: 1 HK cent).

SBI E2-Capital

HK/China

In April 2002, the Group's financial services' joint venture, SBI E2-Capital reorganized its Greater China business by the appointment of a Chief Executive Officer of SBI E2-Capital China Holdings Limited ("SBI E2-Capital China") and placing its operations in Hong Kong and the Peoples' Republic of China under SBI E2-Capital China with the objective of integration of SBI E2-Capital Group's resources to keep the group in tune with market conditions and economic trends and to maximize business results.

In the first half of 2002, stock market volume in Hong Kong shrank by more than 20% with an average daily turnover to HK$7.6 billion. Against a net profit of HK$4.4 million in the preceding period of 2001, the brokerage division sustained an operating loss of HK$5.1 million during the period under review. The management had foreseen the difficult operating environment in the beginning of this year and had implemented a series of cost control measures to reduce the operating expenses and to streamline the on-line trading business. The effect of the cost rationalization measures would be more apparent in the third to fourth quarter of this year.

Regarding margin financing business, the management of SBI E2-Capital took a prudent approach in granting credit to clients and thus the consistent poor market performance and high bankruptcy in Hong Kong did not expose our brokerage and margin financing arm, SBI E2-Capital Securities Limited, to any significant credit risk throughout the period. As well, there was no significant provision made for bad and doubtful debts.

The Group's investment banking activities as undertaken by SBI E2-Capital (HK) Limited, performed satisfactorily in the first half of 2002 and recorded a profit before taxation of HK$4 million (2001: HK$12.6 million) even though the market was not yet recovered during the period with revenue stood at HK$10.6 million compared with HK$25.6 million for the same period last year. During the period under review, the division successfully secured the role of co-sponsor and co-lead manager in the listing of Linmark Group Limited and MediaNation Inc. respectively. SBI E2-Capital (HK) Limited also emerged as the leading player in the equity capital market for small and medium enterprises during the period under review.

With the receipt in December 2001, from the China Securities Regulatory Commission of a license to act as a brokerage house of B Shares market and as a lead manager in the issue of B Shares in the PRC, the Group has been making progress in processing mandates from the PRC and regional clients and business so as to carry out fund raising exercises, focusing mainly on listings on The Stock Exchange of Hong Kong.

Research

During the period, our research team continued to publish research reports on companies, sectors and other special topics periodically with the aim to assist investors to realize superior returns and its research coverage from that of technology companies to include media, telecom, industrial and consumer companies, covering in particular those that are operating in Greater China, and this has led to an increase in the volume of research commentary delivered during the period under review. By the end of 2001, SBI E2-Capital was ranked as the second best local house in Hong Kong by The Asset 2001 Broker Poll and the fourth most improved China research by Asiamoney 2001 Broker Poll.

Singapore

The Singapore division, SBI E2-Capital Pte Ltd ("SBI Pte") has continued to perform well as an innovative corporate finance house in Singapore, unlinked to any existing brokerage house or commercial bank, and it has lead-managed five out of a total of eleven IPOs in Singapore's capital markets in the first half of 2002. Subsequent to the period ended 30th June 2002, SBI Pte was the leading house in terms of lead-managing the current slew of new shares issues, securing mandates for four out of ten IPOs that have been launched in July 2002, on both the Singapore Main Board and SESDAQ Exchanges.

Following the receipt of the Dealer's License from the Monetary Authority of Singapore ("MAS") in December 2001, a fellow subsidiary of SBI Pte has submitted an application to the MAS as a dealer and to submit an application to the Singapore Exchange as a non-clearing member so as to further complement its range of services.

During the period from January to August 2002, SBI E2-Capital was ranked No. 1 among the top 5 lead managers for Hong Kong and Singapore Small and Medium Enterprises ("SME') IPOs.

Top 5 Lead Managers for Hong Kong and Singapore SME IPOs

Rank	**Name**	**Total Amount Raised (HK$m)**
1	SBI E2-Capital	753.5
2	DBS	742.6
3	Core Pacific-Yamaichi	641.9
4	Cazenove	582.7
5	Guotai Junan	386.1

Source: www.hkex.com.hk/www.ses.com.sg
All HK & Singapore IPOs below HK$ 1 billion 2002 YTD
(as at 30 Aug, 2002) - equal apportionment basis

Other countries

Besides a strategic investment in the US-based vFinance, Inc. (Nasdaq OTCBB: VFIN), a fully licensed broker dealer, in December 2001, SBI E2-Capital (USA) Limited ("SBI USA") continued to explore opportunities to expand the Group's regional and global service capabilities and distribution network in anticipation of the need to provide greater breadth and depth of services to our global clients.

Online Primary Offerings

The Group's subsidiary, OpenIBN Technology Holdings Limited ("OpenIBN Tech"), which launched Asia's first electronic share placement platform operator in November 2000, continued to grow its business steadily during the period and expanded its broker network geographically during the year to include, the USA and Europe, thereby providing the Group's 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 from Crosby Limited, previously techpacific Capital Limited, an Asian venture capital company listed in Hong Kong, of a 70% interest in GlobalOffering.com Limited, an online marketing company for primary offerings, with an objective to host IPO/Primary Offering presentation online by applying the latest webcasting technology. OpenIBN Tech has been renamed as OpenOffering Technology Limited ("OpenOffering") early this year, to promote the opening up of the primary offering markets for global investors.

Since the merger and throughout the second half of 2001 and first half of 2002, OpenOffering successfully conducted many notable primary offering transactions, for example MediaNation (US$57m) and Linmark (US$34m) IPOs, Arcontech (US$16m) Equity Placement, and Softbank Investment (US$20m) Convertible Notes in Hong Kong where OpenOffering played a significant role in the transaction. In Singapore this year, OpenOffering have participated in both the PNE Mircron (US$7.6m) and Citiraya (US$20m) IPOs, signifying its expansion into Southeast Asian offerings. Moreover, OpenOffering took part in more than 15 other Equity Capital Markets fund-raising exercise such as Zhejiang Glass, Capinfo, and Sino Stride during the period under review.

Going forward, OpenOffering will continue to strengthen its distribution network in both the USA and Europe particularly London and Paris so as to reach a wider range of brokers and investors in the European continent. In addition, its business focus will also expand into primary offerings in the PRC and Taiwan.

Consulting, Marketing and Technology Services

The disposal of the ebizal business to Softbank Strategic as part of a strategic business realignment by both Softbank Strategic and the Group 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) in 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, coupled with experienced pharmaceutical scientists from the US, have resulted in a unique drug discovery platform, second to none in the PRC. Four chemical entities have been identified in disease areas of high market potential and not yet fully catered for, including screening of Traditional Chinese Medicine (TCM).

Continued progress was recorded in the investment in the Biotechnology arena, which the Group has a US$1 million convertible notes in World Pioneer Limited, a Hong Kong based company which carries out commercialization as well as manufacturing and marketing of generic pharmaceuticals in the PRC and Hong Kong. This company is currently expanding its product range and is in the process of forming strategic alliances with regional players to rapidly expand its business activities. 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 Cheung Wah Ho Dyestuffs Company Limited and Lancerwide Company Limited acquired from Softbank Strategic in January 2002, has made progress despite the depressed market. The business of Winbox Company Limited ("Winbox"), which is an associated company of the Group, remained stable and profitable. With the completion of the relocation of the Winbox factory in the PRC, its production capacity has increased substantially. Winbox is also building its distribution channels in Europe to provide direct services to customers through its new associated company in France, which was acquired at the end of 2001. Both companies are expected to contribute to future group performance.

Property

Goodwill Properties Limited ("GPL"), the Group's property division, was active in the first half of 2002, both in Hong Kong and the PRC.

The sales at Vision Court, the Group's residential development at Prince Edward Road West in Kowloon Tong since its completion in the second half of the previous financial year continued to be satisfactory, with over 90% of the floor area sold as at 30 June 2002 while demand for the remaining units has been encouraging.

The residential development at Fairview Park Boulevard in Yuen Long, consisting of 30 luxurious villas with GFA 6,000m^2, is 50% completed at 30 June 2002 and is targeted for completion in early 2003. The pre-sale of 1-3 Po Shan Road in Midlevels, a luxurious residential development jointly developed with Sun Hung Kai Properties, is scheduled to commence later this year. Both projects together are expected to contribute a total of HK$147 million cash inflow to the Group.

The development of Tianma Project in Shanghai, comprising 200 luxurious villas, a 27-hole golf course and a country club, was in good progress. The Group achieved a remarkable result in the pre-sale of villas. As the PRC property market is very active, the sales have grown rapidly.

GPL is developing other property and environment related projects, such as a centralized drinking water filtration system. This system has been installed in some popular developments in Guangdong province, and it will be extended to other major cities. This business is expected to contribute towards the group's performance in the second half of this year and we expect to procure 10,000 households in 2003 with further increase in revenue.

Liquidity and Financial Resources

As at 30 June 2002, the Group's cash and other short-term listed investments totalled HK$95 million (31 December 2001: HK$131 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$76 million (31 December 2001: HK$75 million).

Of the total bank borrowings of HK$121 million, approximately 94% are loans secured by properties under development located in Hong Kong, 4% are working capital loans secured by bank deposits, while the remaining are loans secured by mortgage loans receivable. Of these borrowings, HK$76 million is repayable within 1 year of which HK$65 million of the facilities will be renewed to coincide with the project development schedule, while the remaining HK$11 million will be repaid this year in line with the repayment schedule, with the balance of HK$45 million repayable within 2 to 5 years.

The Group actively managed its financial resources during the period, resulting in further improvement in the gearing ratio, from 20% at 31 December 2001 to 17% at 30 June 2002, calculated on the basis of the Group's total debts over shareholders' fund, and showing significant improvement when compared to the gearing ratio of 27% as at 30 June 2001.

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 principally 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.

Changes in the Composition of the Group during the Interim Period

On 18 December 2001, the Company entered into a sale and purchase agreement with Softbank Strategic in relation to the disposal of the Group's entire equity interest in ebizal Investments Limited (subsequently renamed as ebizal (Holdings) Limited), an indirect wholly-owned subsidiary of the Company, for a total consideration of approximately HK$68.1 million. The total consideration was satisfied as to (i) approximately HK$51.9 million by way of disposal of Softbank Strategic to the Group of its entire equity interests in Cheung Wah Ho Dyestuffs Company Limited, Full Success Investments Limited, Lancerwide Company Limited and Lucky Happy Development Limited (the "Softbank Companies"), all of which are wholly-owned subsidiaries of Softbank Strategic, and the assignment of Softbank Strategic to the Group of the loans by Softbank Strategic to Softbank Companies, the aggregate of which amounted to approximately HK$62.7 million; and (ii) a sum of approximately HK$16.2 million in cash. The transaction was completed on 24 January 2002.

Number and Remuneration of Employees, Remuneration Policies, Bonus and Share Option Schemes and Training Schemes

As at 30 June 2002, the Group, including Directors and its subsidiaries but excluding associates, employed a total of 43 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$8.6 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 in the section headed "Share Option Scheme".

Details of the Charges on Group Assets

Properties under development with an aggregate value of approximately HK$352 million and bank deposits of HK$5 million have been pledged to secure the general banking facilities granted to the Group of HK$119 million.

In addition, a loan of HK$2.3 million was secured by the mortgage loans receivable of a subsidiary amounting to approximately HK$3.3 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 30 June 2002 amounted to HK$41 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 Ltd, proportionate to the Company's interest. As at 30 June 2002, the shareholders' fund and total liabilities of SBI Pte were HK$18,681,000 and HK$5,935,000 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.

In Summary

The Directors considered the performance of the Group satisfactory in the first half of 2002 under current challenging economic and market conditions. The Group will continue to exercise caution and prudence in its business undertakings and at the same time, will continue to 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 business within the industrial sector.