

What is E2VA™?

The principal activities of E2-Capital (Holdings) Limited include investment holding, operating and trading to generate “Dual Economic Value Added” whereby the Group looks upon each investment with the view of generating the optimum economic value (which compares realisable value and new investment value – hence called Dual Economic Value Added or “E2VA™”) after deducting the cost of capital of the debt and equity employed.

How do we measure E2VA™?

Optimum economic value

- = higher of realisable value of existing investment
or
- net present value (“NPV”) of existing investment and additional investment
- = E2VA™

By establishing E2VA™ as a key operating performance measure for management, this will guide management to maximise economic value and thus shareholder wealth.

What is E2VA™ and How Do We Measure It

The table below shows an illustration of the calculation of E2VA™:

	HK\$ Million			
	Year 1	Year 2	Year 3	Year 4
Additional Investment				
Year beginning capital employed (net)	20	15	10	5
Net of tax operating cash flow	35.03	35.03	35.03	35.03
Economic depreciation*	(5)	(5)	(5)	(5)
Imputed capital charge (15% of capital employed)	(3)	(2.25)	(1.5)	(0.75)
Economic Value Added	27.03	27.78	28.53	29.28
Equivalence with NPV				
Economic Value Added	27.03	27.78	28.53	29.28
PV factors @15%	0.870	0.756	0.658	0.572
Present Value	23.52	21.00	18.77	16.75

Total Present Value = HK\$80.04 million = Project NPV (difference due to rounding)

E2VA™ = NPV of (additional investment + existing investment) – Realisable value

Accordingly, additional investment will only take place where there is a positive E2VA™.

* Economic depreciation measures the true fall in the value of assets each year through wear and tear and obsolescence representing the capital expenditure the firm would have to make each year to maintain its capital base. In this illustration, for simplicity, economic depreciation is assumed to occur on a straight-line basis though clearly other bases are applicable.