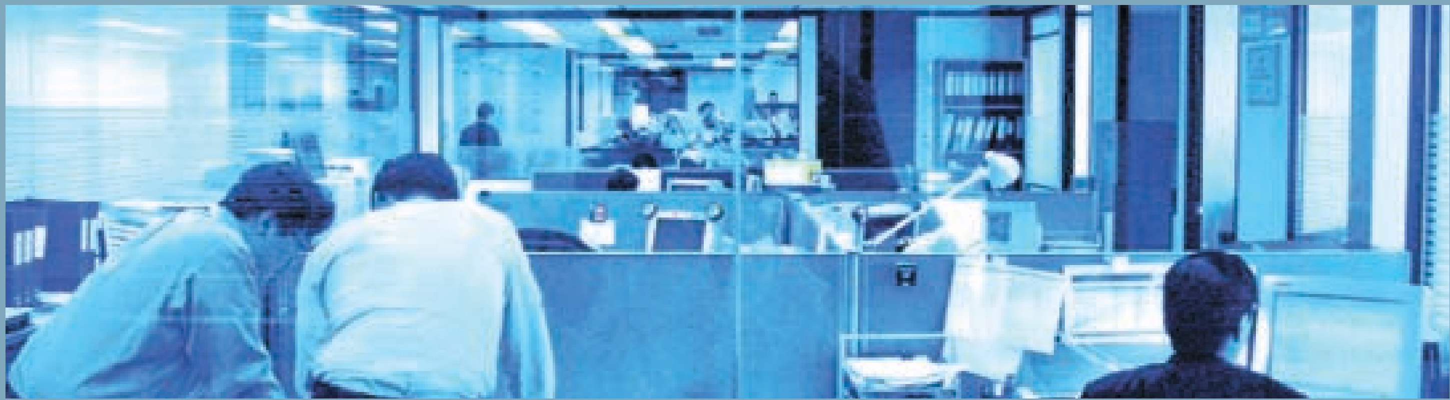
MANAGEMENT DISCUSSION AND ANALYSIS

2002 has been a difficult year for the areas that the Group is engaged in. Revenue for the year ended 31 December 2002 declined to HK$116 million (2001: HK$348 million) whilst the advances achieved from reducing our overheads of HK$96 million were not sufficient to offset the significant losses from the provision for impairment of investment properties and properties under/for development of HK$91 million and the net realized and unrealized loss on investments in securities as well as loans to investee companies of HK$218 million. As a result, the Group recorded a loss attributable to shareholders of approximately HK$352 million (2001: profit of HK$35 million).

Notwithstanding the loss recorded for the year, 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 substantial foundations for capturing new business opportunities in today's challenging market.



Having formed our financial services joint venture, SBI E2-Capital Limited ("SBI-E2-Capital"), with Softbank Investment International (Strategic) Limited ("Softbank Strategic") in April 2001, as well as integrating 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.

Notwithstanding the loss for the year, due to effective cash management, bank and cash balance increased by 4% to HK$127 million at 31 December 2002, compared with HK$122 million at 31 December 2001, and increased by 43% compared with HK$88 million at 30 June 2002. With the sale of properties under development and cash return from investments, this balance is expected to continue to increase in the coming year. Liquidity improved, with a current ratio of 2.50 times at 31 December 2002 when compared with 1.90 times at 31 December 2001. Although the loss for the year has reduced consolidated shareholders' funds by 35%, standing at HK$644 million at 31 December 2002, compared with HK$993 million at 31 December 2001, the Group's asset backing remained strong with net tangible assets per share of HK$0.56 at 31 December 2002 (HK$0.85 at 31 December 2001) and substantially higher than the current market capitalization of the Group.

Going forward, all of our business units will continue to focus on the strengthening of our financial resources flexibility and achieving fiscal independence and efficiency so as to enhance the Group's E2VA™("Dual Economic Value Added").

MANAGEMENT DISCUSSION AND ANALYSIS

In this regard, the Group has implemented a comprehensive 'top-down' investment and cost rationalization 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, net cash outflows for investing activities were reduced by HK$30.6 million to HK$16.9 million (31 December 2001: outflow of HK$47.5 million) and inflows from operating activities were increased by HK$58.6 million to HK$39.1 million (31 December 2001: outflow of HK$19.5 million).

With a view of substantial cash flow coming back from the sale of properties under development and return from investments, which is expected to be substantially higher than the total operating costs of the Group. In the coming years, we expect to resume our dividend distribution to reward our shareholders for their continued support to the Group. 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 Parent Company level.

Financial Services

SBI E2-Capital Group ("SBI E2-Capital"), the financial services division of the Company, recorded HK$101.2 million in turnover for the year ended 31 December 2002 as compared with HK$157.1 million for the year ended 31 December 2001, mainly due to the sluggish turnover of the securities market. The loss attributable to shareholders is HK$19 million for the year ended 31 December 2002 as compared with the loss of HK$16.9 million for the year ended 31 December 2001.

HK/China

During the period, SBI E2-Capital reorganized its Greater China business by placing its operations in Hong Kong and Mainland China under SBI E2-Capital China Holdings Limited 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.

The Group's investment banking activities as undertaken by SBI E2-Capital (HK) Limited, performed satisfactorily in the year ended 31 December 2002 and recorded a revenue of HK$17.5 million compared with HK$28.8 million for the same period last year amidst low level of market activities during the year with a profit before tax of HK$4.2 million (2001:HK$2.7 million). During the year under review, the division successfully secured the role of co-sponsor in the listing of Linmark Group Limited. 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.

However, year 2002 saw an extremely tough operating environment for the securities brokerage industry. Market turnover shrank from an average daily turnover of HK$7.6 billion in the first half to HK$6.9 billion in the second half of 2002. Gross commission of the brokerage division decreased by 63% from HK$76.7 million in 2001 to HK$28.4 million in 2002. In light of the difficult operating environment and the coming into force of fully negotiable brokerage commission in April 2003, management of SBI E2-Capital implemented a series of cost control measures to reduce the operating costs and to streamline the on-line trading business. As a result, the general and administrative expenses fell to HK$21 million for the year ended 31 December 2002 as compared with HK$50 million for the previous year. However, this was not sufficient to offset the loss in revenue although the Group recorded a lower loss before tax of HK$2.2 million, as compared with a loss of HK$3.1 million last year. In order to remain competitive and to be well positioned for the market recovery, management of SBI E2-Capital will continue to implement cost rationalization measures and to enlarge its client base with a more focused institutional sales team.

Management also took a prudent approach for its margin financing business and was conservative in granting credit to clients. Consequently, the consistent poor market performance and high bankruptcies in Hong Kong did not expose the division to any significant credit risk throughout the year. As well, there was no significant provision made for bad and doubtful debts and advances to customers were kept at a low level with less than HK$2 million outstanding as at 31 December 2002.

In December 2001, the China Securities Regulatory Commission ("CSRC") granted a license to our securities dealing company to act as a brokerage house of B Shares market and as an underwriter 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.

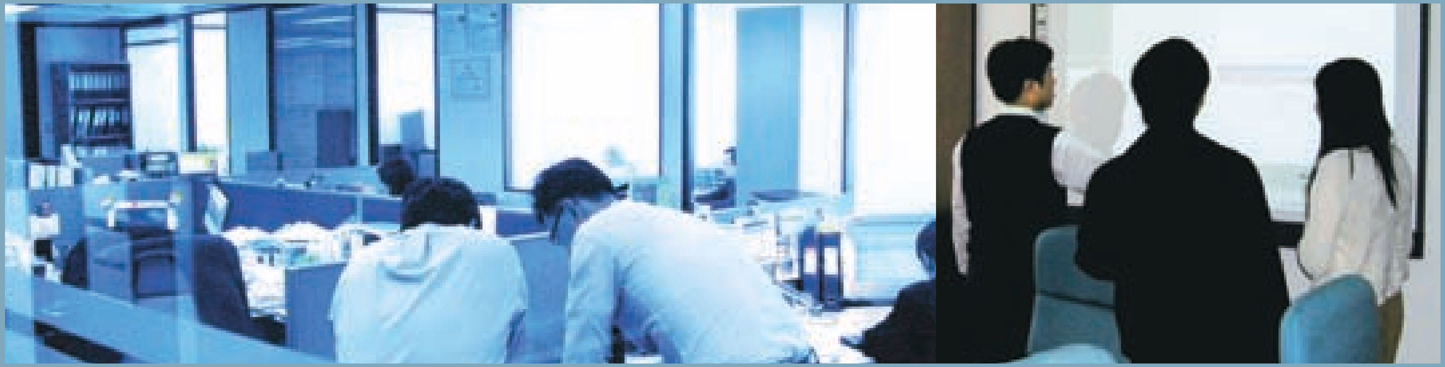
Research

During the period, our research team focused their effort on China export plays and industrial and consumer companies listed in Hong Kong and initiated coverage on more than 60 companies. At the same time, various corporate road shows were arranged in Hong Kong and Singapore with the aim of bringing the management of quality companies directly to institutional investors.

Singapore

The Singapore division, SBI E2-Capital Pte Ltd ("SBI Pte") continued to perform well as an innovative corporate finance house in Singapore, unlinked to any brokerage house or bank, and it has lead-managed 12 out of a total of 28 IPOs in Singapore's capital markets in 2002. As well, SBI Pte has brought "Award Winning Companies" to Singapore's capital market namely Citiraya Industries Ltd, which was awarded the "Best Newly Listed Company in Singapore 2002" in Asiamoney's Best Managed Companies Poll 2002. In addition to the corporate finance services provided, a new fellow subsidiary of SBI Pte, namely SBI E2-Capital Securities Pte Ltd ("SBI Securities Pte"), was set up and has submitted applications to the Monetary Authority of Singapore ("MAS") for a Capital Markets Services License ("CMS License") and to the Singapore Exchange as a non-clearing member to provide securities dealing services.

It is envisaged that with the approval of the CMS License from MAS, the Singapore division will expand the corporate financial advisory business of the company into securities brokerage and trading business. By then the operation of the securities brokerage business in Singapore and Hong Kong could forge closer tie and further enhance the distribution network of the Group. It is expected that the approval from MAS will be received before the end of the second quarter of 2003.



In December 2002, a corporate re-structuring took place where SBI E2-Capital Holdings Pte Ltd ("SBIHPL"), the holding company of the Singapore operations, was transferred out of the SBI E2-Capital Group and became a directly owned associated company of the Group of which the results had been equity accounted for.

It was heartening to note that during the year ended 31 December 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$million)
1	***SBI E2-Capital***	***894.9***
2	Core Pacific-Yamaichi	882.7
3	DBS	828.7
4	Cazenove	582.7
5	Guotal Junan	470.1

Source: www.hkex.com.hk/www.ses.com.sg
All Hong Kong & Singapore IPOs below HK$1 billion 2002 YTD
(as at 31 Dec, 2002) — equal apportionment basis

Online Primary Offerings

OpenOffering Technology Limited ("OpenOffering"), previously known as OpenIBN Technology Holdings Limited, continues to build its track record in Asian primary equity markets.

The Group through its subsidiary, continues to grow its online placement (for IPO's and Primary Offerings) and online roadshow business steadily throughout the year 2002. The Group's broker networks have expanded rapidly in different parts of the world with a new office in Irvine, California, to cover the North American institutions. On the European side, the Group has also expanded its operation into Paris, which compliments the London operation in covering investors in French-speaking nations in the European Union. In Asia, the Singapore representative office had also grown to offer a wider range of products to facilitate the overwhelming demand from investors in South East Asia. Therefore, the Group will now be able to provide our clients a much more powerful distribution network to reach out to more investors around the globe.

The Group's shareholding structure remains the same, with E2-Capital holding a 70% interest and Crosby Limited (previously techpacific Capital Limited, an Asian Venture Capital company listed in Hong Kong) holding the balance.

Since the start of the Singapore operation, the Group has participated in many IPO on the ground including several key transactions like Citiraya (US$20million) IPO in July, the Multivision (US$9 million) IPO and DMX (US$7 million) IPO in December 2002, which are extremely well received with good aftermarket performance. Moreover, under the current tough market environment, the Group still managed to complete its commitment in several noteworthy Hong Kong equity capital markets fund-raising, for example the Linmark (US$39 million) IPO in May, the Arcontech (US$16 million) Equity Placement in April, and the SIIS (US$20 million) Convertible Bond issue in August 2002.

As the Group has increased its market shares and raised awareness throughout the years, more professional and institutional investors have started to come to demand the Group for primary offering transactions in the market.