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.*

As mentioned in the last annual report, the Directors expected a difficult business environment in 2003. As it turned out, the period under review was extremely challenging as a result of the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the region in the first half of the year. The weak investment and consumer confidence has caused the regional economy to deteriorate further, reflected by a persistent high unemployment rate and severe deflationary pressure in most of the locations that we operate in. Improvement in sentiment came in the third quarter and became more evident in the later part of the year. Management continued to operate based on "Dual Economic Value Added" ("E2VA™") - returns on assets and capital appreciation for shareholders, with a view to optimize real economic value.

Although the Group continued to streamline its operating structure and has seen improvement in operating results in the second half of the year, the adverse impact of the business environment, particularly on the investment and properties sectors, was significant. As a result the Group recorded a loss attributable to shareholders for the year ended 31 December 2003 of HK$124 million (2002: HK$352 million).

Notwithstanding the significant loss for the year under review, with the realization from sale of properties under development and cash return from investments as well as effective Group cash management, the bank and cash balance increased further by 22% to HK$155 million at 31 December 2003, compared with HK$127 million at 31 December 2002. This balance is expected to increase further in the first half of 2004 arising principally from the sale proceeds of the Group's property projects which are more than sufficient to meet the related financing requirements.

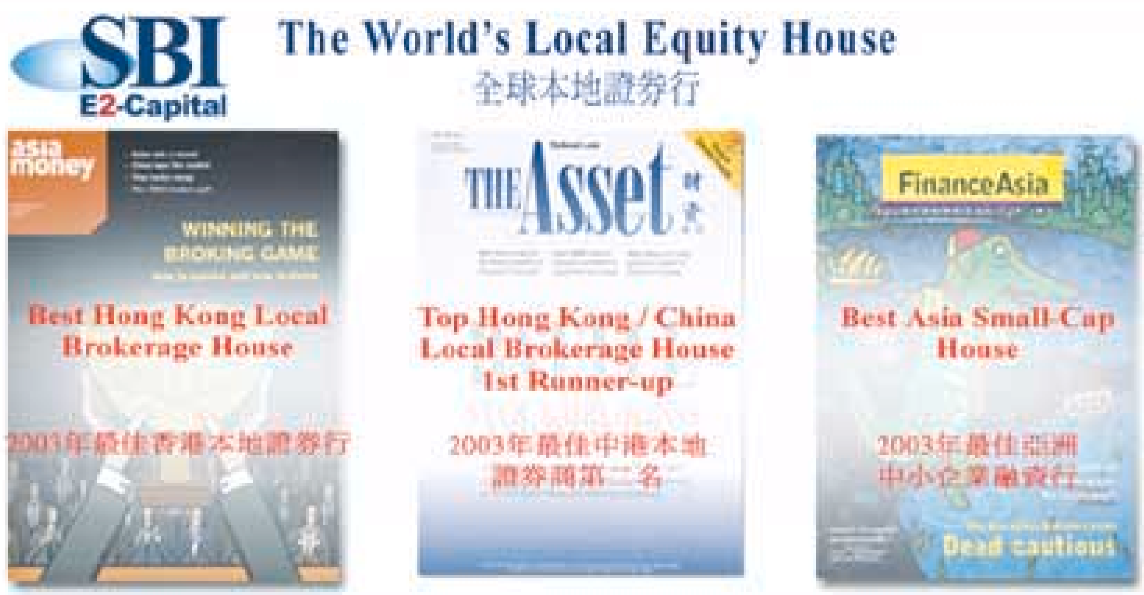
Liquidity of the Group remained satisfactory, with a quick ratio of 1.27 times at 31 December 2003 (2002: 1.33 times) calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over total current liabilities. However, consolidated shareholders' funds declined to HK$520 million at 31 December 2003, with net tangible assets per share of HK$0.91 (2002: HK$1.13) due to the loss for the year.

We recognize the importance of enhancing financial resources flexibility, with the Parent Company further increased its cash and bank balance to HK$126 million as at year end (2002: HK$96 million), as a result of our continued efforts to realize our non-core assets as well as disposing of investments with low or negative return. We believe this high level of financial resources will place the Group in a strong position to meet the demands of an increasingly complex business landscape.

Financial Services

HK/CHINA

Notwithstanding a very difficult first half in 2003 for the brokerage and investment banking industry in Hong Kong, the division which is operated through a 49% associated company, SBI E2-Capital China Holdings Limited ("SBI E2-Capital"), made a substantial improvement in its operating performance for the year ended 31 December 2003 on the back of a strong rebound in the second half of the year. The average daily turnover on the Main and GEM boards has improved by 57%, from HK$6.6 billion in 2002 to HK$10.4 billion in 2003. As a result of the strong performance of the robust equity capital markets which contributed to increased activities in our equity placements and broking businesses, operating profit before tax for the year ended 31 December 2003 of the division reached HK$11.2 million (2002: loss of HK$12.4 million). Notwithstanding a significant increase in turnover, the division continues to exercise vigilance over its operating cost. We are pleased that our clients have recognized our contribution and are honored to be awarded Best Local Broker in Hong Kong by Asiamoney in November 2003 and Top Hong Kong/China Local Brokerage House First Runner Up by The Asset Magazine in November 2003.



"...THE ROBUST EQUITY MARKET CONTRIBUTED TO INCREASED ACTIVITIES IN OUR IPO, EQUITY PLACEMENTS AND BROKING BUSINESS..."

Stock and futures broking

Gross commission from securities and futures broking increased by 62% to HK$46.2 million for the year ended 31 December 2003 (2002: HK$28.4 million) which helped the division turn around from a loss of HK$2.2 million in 2002 to a profit of HK$7.2 million in 2003 following the quick recovery of market turnover and equity placement activities in the second half of 2003. As well, the hectic China IPOs and trading activities have pushed the market to its climax in the fourth quarter. Additionally, business volume was boosted by the pick up in equity derivative activities, especially Hang Seng Index futures and options, as well as a strong expansion of our institutional client base to complement our existing strong retail segments.

Investment banking

The investment banking arm of the division, SBI E2-Capital (HK) Limited, made a significant profit contribution to the Group with an increase in revenue of 24% to HK$21.7 million for the year ended 31 December 2003 (2002: HK$ 17.5 million) with an operating profit before tax of HK$7.6 million (2002: HK$4.2 million). Notwithstanding a difficult first half, SBI E2-Capital built a strong reputation and emerged as the leading player in the equity capital market for small and medium enterprises in Hong Kong/China.

Margin financing

We continued to adopt a cautious approach to this business and were selective in extending facilities to quality clients. As at 31 December 2003, the margin loan receivable remained at a low level with less than HK$9 million outstanding and as well, no significant provision was made for bad and doubtful debts for margin clients.

Research

SBI E2-Capital continues to strive to be the leading Hong Kong/China small cap research house. Our team successfully identified China outsourcing as the main theme in 2003. In the mean time, we initiated new coverage on an array of industrial/exporter stocks during the period. As mentioned above, the effort was endorsed by the Asiamoney Brokers Poll 2003 and The Asset Brokers Poll 2003 in which SBI E2-Capital was voted by institutional investors as the best Hong Kong Local Brokerage House and second best Hong Kong/China Local Brokerage House respectively.

SINGAPORE

The Singapore corporate finance division under our associated company, SBI E2-Capital Holdings Limited ("SBI Singapore"), has kept its performance as an innovative corporate finance boutique in Singapore as it has lead-managed 16 out of 57 IPOs in Singapore's capital markets for the year ended 31 December 2003, which accounted for 28.1% and 11.5% in terms of number of deals and funds raised respectively during the period. Revenue has reached HK$63.2 million (2002: HK$35.6 million) and an operating profit before tax of HK$28.5 million (2002: HK$16.4million).

In May 2003, SBI Singapore acquired a 60% equity interest in Quattro Media, a joint venture with Quattro Communications, to provide IPO public relations and post-IPO investor relations services. In a bid to further increase its service offering, SBI Singapore established a stockbroking arm, SBI E2-Capital Securities Pte. Limited, which successfully obtained a Capital Market Services ("CMS") License in April 2003 to deal in securities. In July 2003, it launched its internet IPO share application website www.ePublicOffer.com, whose platform allows its registered members to apply for placement shares for IPOs managed by SBI Singapore or other issue managers on a first-come-first-served basis. By October 2003, SBI E2-Capital Securities Pte. Limited was admitted as a clearing member of the Singapore Exchange Securities Trading Limited ("SGX-ST").

In January 2004, SBI Singapore was successfully listed on the SESDAQ of SGX-ST and at the same time was conferred the "Best Small-Cap Equity House" award for 2003 by FinanceAsia in recognition of its achievements in the Singapore market for small-cap equity deals for 2003.

Online Primary Offerings

OpenOffering Technology Limited ("OpenOffering") continues its mission to help Asian companies to manage their primary offerings transactions.

During the year, OpenOffering Capital has successfully completed several IPO transactions including Hua Han, Yantai North Andre Juice and Superdata, which helped OpenOffering to strengthen its syndicate relationship with other IPO Lead Sponsors and Bookrunners. OpenOffering Group will undertake a review of its operations to better position itself in the online Primary Offering arena in Asia.

We have extended the online primary offerings model to Singapore via ePublicOffer.com. We are looking to introducing this service to other countries as part of their financial services operations.

Industrial

The Group's industrial business, operated through Cheung Wah Ho Dyestuffs Company Limited and Lancerwide Company Limited, performed satisfactorily despite the outbreak of SARS with a contribution of HK$35 million (2002: HK$33 million) to the Group's turnover and reported a loss before tax of HK$106,000 (2002: profit of HK$934,000). Due to competitive pressure from mainland China, the industrial business is expected to face another challenging year in 2004.

OUR RESEARCH TEAM SUCCESSFULLY IDENTIFIED CHINA OUTSOURCING AS THE MAIN THEME IN 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Winbox Company Limited, an associated company of the Group which operated its packaging business principally out of China, remained stable and profitable despite the outbreak of SARS. For the year ended 31 December 2003, its revenue and net profit before tax was HK$90 million (2002: HK$95 million) and HK$24 million (2002: HK$25 million) respectively. With the provision of direct services to customers through its associated company in France, together with the high production capacity of its factory in the PRC, contribution from Winbox is expected to increase in the coming year.

Property

Goodwill Properties Limited ("GPL"), the Group's property division, was active during the year, both in Hong Kong and the PRC.

The sales of Vision Court, the Group's residential development at Prince Edward Road West in Kowloon Tong, was satisfactory and all the remaining units are now sold.

The residential development at Greenery Gardens in Yuen Long, consisting of 30 luxurious villas with gross floor area of 6,500 m^2, was completed and an Occupation Permit was issued in the second half of 2003. Sales and marketing efforts commenced in early 2004 with all units sold by the end of February 2004. As a result, we expect significant net cash inflow of approximately HK$60 million to the Group in the coming year.

The luxurious residential market rebounded appreciably in the second half of 2003 with all units at No. 1 Po Shan Road in Midlevels, a luxurious residential development jointly developed with Sun Hung Kai Properties, completely sold within a short period of time. The Group has received part of our share of sales proceeds from the units sold during the year which amounted to HK$54 million with the balance of HK$10 million expected to be received in 2004.

Laford Centre, a property jointly owned by Ryoden Group, Vision Century and E2-Capital, was sold during the year and the Group has received its entire share of the cash proceeds of HK$30 million which contributed further to the working capital of the Group.

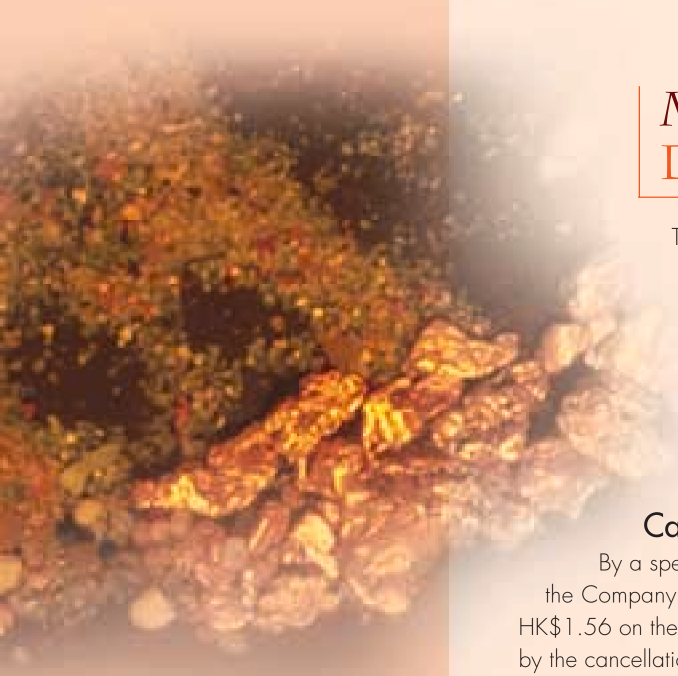
The Group has a 12.5% interest in the Tianma Project in Shanghai, comprising 200 luxurious villas, a 27-hole golf course and a country club. The project has made good progress with the completion and opening of the golf and country club as well as achieving a satisfactory result in the pre-sale of villas. Given the uncertainty facing the Chinese luxury property sector, the Group has made an adjustment to the carrying value of this project. Due to the buoyant Shanghai property market, It is hopeful that this project will contribute to the Group in the future.

GPL is also participating in other property and environment related projects, including a centralized drinking water filtration system which has been installed in several popular developments in Guangzhou with the current number of customers standing at more than 15,000 households. This project is expected to further contribute towards group profitability in the years to come when additional systems are installed at other major cities in Guangdong province.

Liquidity and financial resources

The Company has provided corporate guarantees for banking facilities extended for group companies, further details are described in the section under Contingent Liabilities. The Company has stayed debt free with no outstanding bank borrowings at 31 December 2003 (2002: nil).

As at 31 December 2003, the Group's cash and other short-term listed investments totalled HK$173 million (2002: HK$127 million). Of the total bank borrowings of HK$121 million, approximately 99% are loans secured by investment properties, properties under/for development and properties under development for sale located in Hong Kong, with the balance secured by mortgage loans receivable. Of these borrowings, HK$105 million is repayable within 1 year and HK$16 million is repayable within 2 to 5 years. We are pleased to report that subsequent receipt of sale proceeds of more than HK$100 million from the Greenery Gardens Project have allowed us to retire the entire HK$74 million of the project bridging loan and further strengthened our liquid capital.



MANAGEMENT DISCUSSION AND ANALYSIS

THE GROUP CONTINUED TO ACTIVELY MANAGE ITS FINANCIAL RESOURCES WHICH RESULTED IN FURTHER IMPROVEMENT IN CURRENT LIQUIDITY

The Group has continued to actively manage its financial resources during the period, which resulted in further improvement in current liquidity. The quick ratio remained at a satisfactory level of 1.27 times as at 31 December 2003 (2002: 1.33 times), calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over current liabilities. Long term gearing at the end of 2003, calculated on the basis of long term debt over shareholders' fund, improved further to 3.2% (2002: 6.6%).

With cash and marketable securities on hand as well as available banking facilities, the Group's liquidity position has strengthened further and the Group has sufficient financial resources to meet its current commitments and working capital.

Capital structure of the Group

By a special resolution passed on 18 June 2003, the Board effected a capital reorganisation exercise pursuant to which every two shares in the Company were consolidated into one share; the currency denomination of all of the consolidated shares were changed from USD0.20 into HK$1.56 on the basis of USD1 to HK$7.80; and the nominal value of all the redenominated shares were reduced from HK$1.56 to HK$1.00 each by the cancellation of HK$0.56 of the paid-up capital on each issued redenominated share.

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

The Group's borrowings are all denominated in Hong Kong dollar 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 year

There was no change in the composition of the Group during the year.

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

As at 31 December 2003, the Group, including Directors and its subsidiaries but excluding associates, employed a total of 44 full-time employees. The Group operates different remuneration schemes for client service and 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 personnel 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$12 million for the year. 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.

Details of the charges on Group assets

As at 31 December 2003, investment properties, properties under/for development and properties under development for sale with an aggregate value of approximately HK$274 million have been pledged to secure banking facilities of HK$119 million granted to Group companies for these developments.

In addition, a loan of HK$1.8 million was secured by mortgage loans receivable of a subsidiary of approximately HK$2.6 million.

Subsequent to year end, bank borrowings have been reduced by HK$74 million with collections from the sale of villa units in the Greenery Gardens Project.

Contingent liabilities

Corporate guarantees proportionate to the Company's interest were given to financial institutions for working capital facilities of associated companies in addition to collateral given by these companies. The aggregate amount of such facilities utilised by these companies at 31 December 2003 amounted to HK$6 million.

In addition, the Company had provided letters of undertaking to the MAS in respect of the obligations and liabilities of two associated companies of the Group, SBI E2-Capital Pte Ltd ("SBI Pte") and SBI E2-Capital Securities Pte Ltd ("SBI Securities Pte"). As at 31 December 2003, the shareholders' funds and total liabilities of SBI Pte were HK$29 million and HK$17 million respectively; the shareholders' funds and the total liabilities of SBI Securities Pte were HK$28 million and HK$21 million respectively.

Exposure to fluctuations in exchange rates and related hedges

The Group's assets and liabilities are primarily denominated in Hong Kong dollar. The Group has no significant exposure to foreign exchange fluctuations.

In Summary

With substantial cash flow returning from the sale of properties under development which is expected to be more than sufficient to retire the related project financing, the Group expects to increase further its cash balances in 2004. 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. We believe such financial flexibility will place us in good stead to capture strategic investment opportunities that may arise in the current business cycle.

Final Dividend

The Directors have decided not to declare a final dividend for the year ended 2003 (2002: nil) to better conserve Group cash resources. The Directors will resume dividend distribution as soon as the Group is in the position to do so.