

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to report that the Group has turned around in 2004 with a profit attributable to shareholders of HK\$67 million (2003: loss of HK\$124 million), which was mainly contributed by sales from the Group's Properties Division, better performance of the investment portfolio as well as improved results of the Group's associated companies in line with the recovery in Asia.

With the realization from sale of properties under development and cash return from investments as well as effective Group cash management, bank and cash balance increased further by 44% to HK\$223 million at 31 December 2004. (2003: HK\$155 million)

Liquidity of the Group improved further with a quick ratio of 6.23 times at 31 December 2004 when compared with 1.27 times at 31 December 2003, calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over total current liabilities. Moreover, consolidated shareholders' funds increased by HK\$47 million to HK\$567 million at 31 December 2004, with net tangible assets per share of HK\$1.41 (HK\$1.30 at 31 December 2003 as restated) as a result of the turnaround in the Group's profit for the year.

We recognise the importance of financial resources flexibility, with the Parent Company further increasing its cash and bank balance to HK\$190 million as at 31 December 2004 (HK\$126 million at 31 December 2003). 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 as well as enable the Group to refocus on the growth of our existing businesses and identify potential businesses in future.

Financial Services

HK/CHINA

The Hong Kong/China division, SBI E2-Capital China Holdings Limited, made a net profit before tax of HK\$6.8 million for the year ended 31 December 2004 (2003: HK\$11.2 million). The division continues to exercise vigilance over its operating cost and risk management. To better meet these objectives, the division has upgraded its management information system in the fourth quarter of 2004 to further enhance operational efficiency and effectiveness. With the adoption of an effective credit policy, no significant provision for bad and doubtful debts was recorded. The division will continue to exercise prudence and selectively extending trading facility to quality clients.

We are grateful that our clients have continued to show support during the year and we were pleased to be recognised as the Best Local Brokerage – Hong Kong by Asiamoney in both 2003 and 2004 as well as the Best Domestic Equity House by Asiamoney in May 2004.

Stock and futures broking

Gross commission from securities and futures broking business remained steady and reached HK\$28.4 million for the year ended 31 December 2004 (2003: HK\$46.2 million). Our stringent cost control measures helped keep net profit before tax at HK\$6 million for the year ended 31 December 2004 (2003: HK\$7.2 million). During the year, SBI E2-Capital Securities Limited was the Joint Bookrunner and the Joint Lead Manager of the Initial Public Offer of FUJI Food and Catering Services Holdings Limited, which was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in December 2004.



“SBI E2-CAPITAL
WAS NAMED BEST
HONG KONG LOCAL
BROKERAGE BY
FUND MANAGERS IN
2003 AND 2004”

BEST LOCAL BROKERAGE FIRM



BEST DOMESTIC EQUITY HOUSE



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Investment banking

The corporate finance and advisory business has recorded a net profit before tax of HK\$2.9 million for the year ended 31 December 2004 (2003: HK\$7.6 million).

Research

We were named the "Best Hong Kong Local Brokerage" by fund managers in the Asiamoney Broker Poll for the second year in a row in 2004. This is a testimony to the quality of our research products and influence on the market. The research team added two new members to a total of six analysts in 2004. Our research coverage has extended to encompass more China related stocks and mid caps during the year.

SBI CROSBY

On 1 August 2004, SIIS XCapital Limited, a 49% associated company of the Group, has formed a 50/50 joint venture SBI CROSBY (Holdings) Limited ("SBI CROSBY") with Crosby Investment Holdings Limited (formerly known as "Crosby Capital Partners (Cayman) Limited"), a subsidiary of Techpacific Capital Limited whose shares are listed on the GEM board of the Stock Exchange of Hong Kong Limited. SBI CROSBY, upon successfully obtaining the licenses from the Hong Kong Securities and Futures Commission and other regulatory bodies, will carry on the primary business of providing corporate finance services in Greater China, including to act as joint sponsor to companies listed or to be listed on GEM and the Main Board of the Hong Kong Stock Exchange and providing corporate advisory services in relation to pre-IPO fund-raisings, mergers and acquisition and post-listing fund-raisings and other corporate transactions. The management believes that this development can facilitate the improvement of the performance of the Group's Greater China business by complementing the existing platform and business with a wider network to originate new mandates in the region via the SBI franchise.

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THE GROUP
CONTINUED TO
LOOK FOR
OPPORTUNITIES IN
SINGAPORE /
MALAYSIA WITH
GROWING
IMPORTANCE OF
REGIONAL ECONOMY

SINGAPORE/MALAYSIA

SBI E2-Capital Holdings Limited ("Westcomb") was successfully listed on the SESDAQ of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 21 January 2004 and has since changed its name to Westcomb Financial Group Limited at its Extraordinary General Meeting on 18 August 2004. Upon its successful listing, the Group has decided to exit from this investment in associated company consistent with the Group's policy to retain control in units operating under the SBI E2-Capital franchise. In August 2004, SBI E2-Capital Asia Limited, a 49% owned associate of the Group, sold its entire 49% stake in SBI E2-Capital Securities Pte Limited to Westcomb for S\$4.9 million. In addition, Goodwill Investment (BVI) Limited ("Goodwill"), a wholly owned subsidiary of the Company, had disposed of 16,352,324 Westcomb shares, representing 10.92% interest, in Westcomb in late August 2004 for a gain of HK\$22 million. After the disposal, the Group has reclassified its remaining 10.92% interest in Westcomb as an investment.

Despite the exit of our stake in Westcomb, the Group is still looking for opportunities in Singapore and Malaysia with the growing importance of these regional economies in Asia Pacific. During the year, SBI E2-Capital Holdings Sdn Bhd, a wholly owned subsidiary of the Company, was formed to cater for the opportunities in Malaysia in view of the improvement in its economy. In addition, SBI E2-Capital Asia Holdings Pte. Ltd. was incorporated in Singapore in September 2004 and its wholly owned subsidiary, SBI E2-Capital Asia Securities Pte. Ltd., has submitted application to the Monetary Authority of Singapore ("MAS") for its approval to deal in securities and provide corporate finance advisory services. It is our aims to help quality Small and Medium Enterprises ("SMEs") raise the necessary capital for their expansion from either IPOs, placements, or private investors. These initiatives are in the developmental stage and will benefit from leveraging of our established brand in Hong Kong and China.

Industrial

The Group's industrial business, operated through Cheung Wah Ho Dyestuff Company Limited and Lancerwide Company Limited, remained steady with a contribution of HK\$38 million (2003: HK\$35 million) to the Group's turnover and reported a loss before tax of HK\$512,000 (2003: HK\$106,000). With the consistent high oil price and competitive pressure from the region, the industrial business is expected to be challenging in 2005.

Winbox Company Limited ("Winbox"), an associated company of the Group which operated its packaging business principally out of China, remained stable and profitable. For the year ended 31 December 2004, its revenue and net profit before tax stood at HK\$106 million and HK\$30 million respectively (2003: HK\$90 million and HK\$24 million respectively). During the year, Winbox has acquired the remaining interest it does not own in its associated company in France due to the improved operating results of the French business. With the provision of direct services to customers through the subsidiary in France and steady production capacity of its factory in the PRC, contribution from Winbox is expected to improve in the coming year.

Digital Consumer Products

In view of the potentially high rate of growth in the digital consumer products in the global markets, the Group has diversified its resources and extended its activities into sourcing and distribution of flash-based digital music players in the last quarter of 2004. In this regard, the Group has established NAPA Global Limited ("NAPA Global"), a wholly owned subsidiary, to spearhead the Group's efforts to develop this initiative and we are pleased to report that NAPA Global has made the first shipments in December 2004 to customers in the European markets. The Group is confident that contributions from NAPA Global will improve in the coming year.

Property

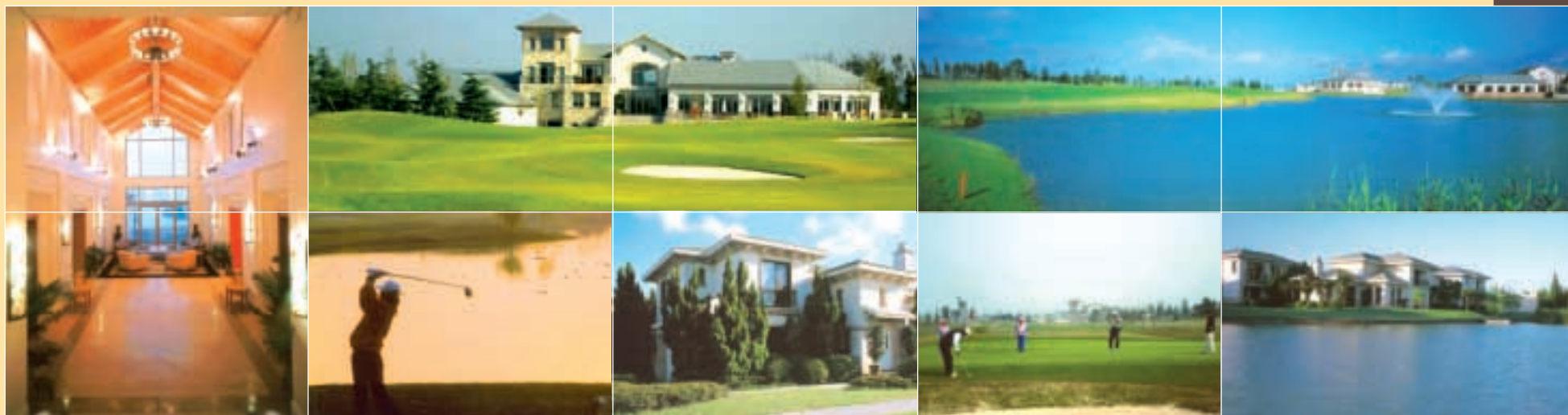
Goodwill Properties Limited ("GPL"), the Group's property division, was active during the year, both in Hong Kong and the PRC.

Greenery Gardens, the residential development developed by GPL at Fairview Park Boulevard in Yuen Long, was completed during the year. It is recognised as one of the best villa developments in the vicinity. The development consists of 30 luxury villas with gross floor area of 6,500m², and were completely sold by June 2004.

GPL will develop Greenery Gardens Phase II at a site adjacent to the above development. Site assembly and planning are currently in progress.

No. 1 Po Shan Road in Midlevels, a luxury residential development jointly developed with Sun Hung Kai Properties, which was completely sold in 2003, saw the completion of its last transaction in early 2004. The Group has received all of its share of sales proceeds from this investment.

The Group's investment property at 32 Lugard Road was sold and the transaction was completed in May 2004. After repayment of bank loan, the Group received net cash of HK\$57 million.



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The villa development at Tso Wo Hang in Sai Kung, consisting of two luxury villas with a total gross floor area of 1,300m² and a 3,200m² garden, is in progress. This development is expected to complete by the end of 2005 and will enable the Group to further meet demand for such quality development.

The Group has increased its interest to 13.35% (2003: 12.50%) in the Shanghai Tianma Project which comprises 200 luxury villas, a 27-hole golf course and a country club in the vicinity of the She Shan National Resort district, Shanghai, China. The golf course and the country club are fully operational and have made positive contributions as well as recognition as one of the best golf clubs in China by many magazines including China Golf Magazine and Golf Digest. Also, it has achieved a remarkable result in villas and club memberships sales. The macro economic austerity measures in China will favour those capable property developers in the market, particularly in the Shanghai luxury property market. Under the current economic situation, it is expected that this project will make further progress in the coming year.

Owing to the recovery of the economy and limited supply of residential flats in the next few years, the Hong Kong property market will become more active. In order to capture this business opportunity, GPL is seeking to expand its land bank in Hong Kong on a selective basis. Also, GPL will explore more business opportunities in the PRC.

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. In addition, this company has started the bottled water business. This project is expected to further contribute towards the Group's profitability in the years to come when additional systems are installed at other major cities in the Guangdong province, China.

Liquidity and financial resources

The Company has provided corporate guarantees for banking facilities extended for group companies and third parties for fees, further details are described in the section under Contingent Liabilities. The Company has stayed debt free with no outstanding bank borrowings at 31 December 2004 (2003: nil).

As at 31 December 2004, the Group's cash and other short-term listed investments totaled HK\$288 million (2003: 173 million). Of the total borrowings of HK\$26 million (2003: HK\$121 million), approximately 94% are loans secured by properties for development located in Hong Kong, with the balance secured by mortgage loans receivable. Of these borrowings, HK\$24 million is repayable within one year.

With effective working capital management during the year, quick ratio improved to the level of 6.23 times as at 31 December 2004 as compared with 1.27 times as at 31 December 2003, 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 31 December 2004, calculated on the basis of long term debt over shareholders' fund, improved further to 0.28% from 3.1% at 31 December 2003.

With the current level of cash and marketable securities on hand as well as available banking facilities, the Group's liquidity position remains strong and it has sufficient financial resources to meet its current commitments and working capital requirement.

Capital structure of the group

By a special resolution passed on 30 April 2004, the Board effected a capital reorganization exercise pursuant to which every ten shares in the Company has been consolidated into seven shares so as to restore the Group's distributable reserve.

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 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 composition of the Group during the year

There was no material 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 2004, the Group, including Directors and its subsidiaries but excluding associated company, employed a total of 68 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\$13.2 million for the year. The Group ensures that the remuneration paid to 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 2004, properties for development with an aggregate value of approximately HK\$43 million have been pledged to secure banking facilities of HK\$24 million granted to Group companies for these developments. In addition, a loan of HK\$2 million was secured by mortgage loans receivable of a subsidiary of approximately HK\$2 million.

Contingent Liabilities

During the year, corporate guarantees were given to financial institutions for working capital facilities of associated companies and third parties (in addition to collateral given by these companies) for fee income to the Group. The aggregate amount of such facilities utilized by these companies at 31 December 2004 amounted to HK\$39 million.

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On 25 October 2004, two letters of undertaking granted in favour of the MAS in respect of the obligations and liabilities of our former associated companies, Westcomb Capital Pte. Ltd. and Westcomb Securities Pte. Ltd., were terminated.

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.

Prospects

With the strong balance sheet and cash flow generated from the sales of properties and investment portfolios, the Group has a relatively high level of financial resources and liquidity which would enable us to tap into business opportunities that may arise ahead. We will continue to exercise a strategic and prudent approach in allocating resources to individual business units and exploring potential strategic business initiatives for the Group. With China expecting to continue to lead global economic growth in 2005, we believe the Group is well positioned to offer full range of products and services from raising funds for companies expanding their operation in the region to facilitating international trade in the Asia Pacific Region.