

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND DIVIDENDS

The Group attained a consolidated turnover of HK\$106,403,000 for the year ended 31 December 2004, representing a decrease of approximately 38% over the corresponding year of 2003. The decrease was mainly due to the deconsolidation of SBI E2-Capital Limited, the holding company of a financial services group, as the Group's equity interest in SBI E2-Capital Limited has been reduced from 51% to 49% on 17 December 2003. Consolidated profit attributable to shareholders amounted to HK\$10,122,000, compared with a net loss of HK\$118,424,000 for the corresponding year of 2003. Basic earnings per share was HK0.25 cents (2003: loss per share of HK4.26 cents).

The Board has resolved not to pay any final dividend to shareholders (2003: nil).

BUSINESS REVIEW

Over the last year, we have taken the opportunity to recoup and to readjust our objectives and strategies to best suit the reviving market environment, and all general indicators point towards slow, but sure recovery and growth. The Group has strived to continue fine-tuning and refocusing its business model and direction, and during the year ended 31 December 2004 successfully achieved profits.

1. Investment Holding Division

The Investment Holding Division contributed towards approximately 8% of the Group's turnover. It recorded a turnover of HK\$8,182,000 (2003: HK\$3,072,000) and an operating profit of HK\$7,020,000 for the year ended 31 December 2004 (2003: operating loss of HK\$112,943,000). The operating profit was mainly contributed by the disposal of subsidiaries which posted a gain of HK\$22,797,000, and a net write back of provision for impairment of non-trading securities of HK\$6,574,000.

The Group has continued to seek out innovative investment opportunities with strong potential both in Hong Kong, neighbouring regions and Greater China, with a particular focus on Mainland China, through direct investments, the setting up of venture capital funds in Mainland China, as well as participating proactively in the overall strategic planning and business development of the investee companies.

Direct Investment

In December 2003, the Group entered into a subscription agreement for the subscription of redeemable convertible notes due 2007 in the principal amount of HK\$13,000,000 at an initial coupon rate of 5% per annum issued by Zhongtian International Limited ("Zhongtian"). The subscription was completed in January 2004. Following the successful listing of its shares on the Stock Exchange of Hong Kong Limited on 22 September 2004, the redeemable convertible notes were fully converted into shares of Zhongtian at a price of HK\$0.80 per share as compared to the closing market price of HK\$0.86 per share as at 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Investment Holding Division (continued)

In January 2004, the Group entered into a subscription agreement and shareholders agreement with independent third parties with regards to the shareholding of M DREAM (CHINA) HOLDINGS LTD (“M DREAM CHINA”). Each of the Group and Softbank Asia Net-Trans Fund (which is managed by the Group) now has an approximately 14% interest in M DREAM CHINA. M DREAM CHINA is the 100% holding company of Hangzhou M Dream Co., Ltd., a company which specializes in the development, manufacturing of and provision of services for mobile entertainment games software which are currently available over China Mobile and China Unicom’s mobile platforms in China. The Directors believe that the mobile games sector in China has tremendous growth opportunity and that M DREAM CHINA has the potential to be the dominant player within this field.

In June 2004, the Group entered into an agreement with New Tech & Telecom Investment Limited (“NT&T”) pursuant to which the Group disposed of its 60% equity interest in Software Gateway Limited (“SWG”) in consideration of approximately HK\$12,094,000 which was satisfied by NT&T issuing to the Group 24,187 of its new shares, representing approximately an 18% shareholding in NT&T. The disposal resulted in a gain of approximately HK\$10,195,000 recognised by the Group in the consolidated profit and loss account for the six months ended 30 June 2004. SWG is primarily a holding company which holds 99% equity interest in Electrum Information Technology Co., Ltd., a developer of customised web-based and software solutions based in Guangzhou. In January 2005, the Group reassessed the fair value of the shares held in NT&T at 31 December 2004 in light of newly available information in accordance with the Group’s accounting policies, and concluded that a provision for impairment loss of HK\$8,008,000 shall be provided for in the consolidated profit and loss account for the six months ended 31 December 2004.

Also in June 2004, the Group entered into a share sale & purchase agreement whereby iMediaHouse Asia Limited (“IMHA”) agreed to acquire the entire 100% issued share capital of Ebizal Marketing (Holdings) Limited (“EMHL”) at a consideration of US\$3 million (equivalent to approximately HK\$23,400,000). The consideration was satisfied in cash and the Group recognised a deemed gain on disposal of subsidiary of approximately HK\$12,604,000 in the consolidated profit and loss account for the year ended 31 December 2004. EMHL is primarily a holding company which holds 100% equity interest in Ebizal Marketing (Hong Kong) Limited (“EMHK”), a synergistic marketing and media company. Further details of IMHA are disclosed below under the “Consulting, Marketing and Technology Services Division”.

In July 2004, the Group entered into an agreement with PhilWeb Corporation (“PhilWeb”) to dispose of a wholly owned subsidiary of the Company which holds shares in PhilWeb at a consideration of Philippine Pesos 80 million (equivalent to approximately HK\$11,200,000). As the investment cost of PhilWeb was fully provided for in the prior period, the Group considered that it is appropriate to write back the impairment provision up to an amount of HK\$11,189,000 in the consolidated profit and loss account for the year ended 31 December 2004. Together with the write back of impairment provision of HK\$3,393,000 in respect of an unlisted investment, the Group has made a total impairment write back of HK\$14,582,000 in the consolidated profit and loss account for the year ended 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Investment Holding Division (continued)

Also in July 2004, the Group entered into an agreement with PhilWeb to acquire approximately 7.6% interest in ISM Communications Corporation ("ISM") at a consideration of Philippine Pesos 80 million (equivalent to approximately HK\$11,200,000). The shares of ISM are listed on the Philippine Stock Exchange.

In August 2004, the Group entered into a subscription agreement with iMagic Infomedia Technology Limited ("iMITL") whereby the Group agreed to subscribe for 39 shares, representing approximately 3% interest in the issued share capital of iMITL, at a consideration of HK\$3,000,000. iMITL's products and solutions have been deployed in a number of Hong Kong's major transport lines, large shopping malls, schools, hospitals and government buildings and also possesses a solid and diverse international client base.

In September 2004, the Group entered into a private placement agreement with a placing agent to subscribe for certain placement shares in Intelligent Edge Technologies Bhd. ("IET"), representing approximately 9% equity interest in IET at a consideration of approximately HK\$3,368,000. IET is a company incorporated in Malaysia and its shares are now listed on the MESDAQ market of Malaysia. IET provides a number of I.T.-related services, including consultancy, design and development of business application software solutions, sale of software maintenance services as well as system integration services. Subsequently, in January 2005, the Group acquired further shares in IET and currently holds 12.3% of its equity interest.

During the year ended 31 December 2004, the Group disposed of certain listed investments which raised approximately HK\$44,122,000 and recognised a net capital gain of HK\$1,346,000 in the consolidated profit and loss account.

Fund Raising Exercises

The Group successfully raised HK\$46,500,000 (net) from the issuance of convertible notes due 2006.

2. Financial Services Division

The performance of the Financial Services Division comprise the fund management business, which is operated by SIIS Investment Management Limited (which was acquired by the Group on 25 November 2003) and the financial services group under SBI E2-Capital Limited (an associated company of the Group of which the results have been equity accounted for by the Group since 17 December 2003).

Fund Management Business

The fund management division contributed approximately 13% of the Group's turnover. It recorded a turnover of HK\$14,646,000 (2003: HK\$487,000) and an operating profit of HK\$10,081,000 (2003: HK\$1,000).

Financial Services Group

During the current year, the results of SBI E2-Capital Limited was no longer consolidated by the Group and was included in the consolidated profit and loss account through equity accounting. The Group's share of profit of this associated company amounted to HK\$4,585,000 for the year ended 31 December 2004 and the performance of its various divisions is discussed further below. In last year, it was consolidated.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Financial Services Division (continued)

HONG KONG/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 reviewed its management information system with the view of upgrading its information technology capability by the first quarter of 2005.

The division is grateful that its clients have recognized its contribution and shown support during the year. SBI E2-Capital Securities Limited was recognized as the Best Local Broker — 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 steadfast and reached HK\$28.4 million for the year ended 31 December 2004 (2003: HK\$46.2 million). Stringent cost control measures also assisted in maintaining 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 one of the Joint Bookrunners and Joint Lead Managers of the Share Offer of FU JI Food and Catering Services Holdings Limited, which was successfully listed on the Main Board of the Hong Kong Stock Exchange by December 2004.

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).

Margin financing

With the adoption of an effective credit policy, no significant provision for bad and doubtful debts was required against loans to margin clients. The division will continue to exercise prudence and selectively extend facility to quality clients.

Research

SBI E2-Capital Securities Limited was named the “Best Hong Kong Local Brokerage” by fund managers in the Asiamoney Broker Poll in 2004 for the second year in a row. This is a testimony to the quality of the division’s research products and influence on the market. The research team added two new members to a total of six analysts in 2004. Its research coverage has extended to encompass more China related stocks and mid caps during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Financial Services Division (continued)

SBI CROSBY

In August 2004, SIIS XCapital Limited, an indirect wholly-owned subsidiary of SBI E2-Capital Limited, formed a 50/50 joint venture SBI CROSBY Holdings Limited ("SBI CROSBY") with Crosby Investment Holdings Limited, a subsidiary of Techpacific Capital Limited whose shares are listed on the GEM board of the Stock Exchange of Hong Kong. SBI CROSBY, upon successfully obtaining the licenses from the Hong Kong Securities and Futures Commission, will carry on the primary business of providing corporate finance services in Greater China, including acting as a co-sponsor to companies listed or to be listed on the GEM or the Main Board of the Hong Kong Stock Exchange. The management believes that this can facilitate the improvement of the performance of 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.

SINGAPORE

Westcomb Financial Group Limited (formerly SBI E2-Capital Holdings Limited), held by the Group as non-trading securities, was successfully listed on the SESDAQ of the Singapore Exchange Securities Trading Limited in January 2004. Upon its successful listing, the Group has decided to divest from this investment and the divestment was completed as at the date of this report.

3. Consulting, Marketing and Technology Services Division

The Consulting, Marketing and Technology Services Division accounted for approximately 16% of the Group's turnover. The Division's turnover was HK\$16,660,000 (2003: HK\$24,447,000) and the operating profit was HK\$650,000 for the year ended 31 December 2004 (2003: operating loss of HK\$2,744,000).

The division comprises the education technology services operated by Sun-Tech International Group Limited, marketing services operated by EMHK, which was disposed to IMHA in June 2004, IT solution services provided by Electrum Information Technology Co., Ltd., which was disposed to NT&T in June 2004, wearable and mobile-computing technology operated by Xybernaut China Limited, and media business operated by IMHA.

In February 2004, the Group entered into a shareholders agreement with Xybernaut Corporation for the formation of a new joint venture company, Xybernaut China Limited. The Group and Xybernaut Corporation own 40% and 60% of the shareholding in Xybernaut China Limited respectively. The joint venture will focus primarily on delivering wearable/mobile computing technology to Mainland China and Hong Kong. The joint venture has the exclusive rights to exploit over 600 patents, registered or pending worldwide, controlled by Xybernaut Corporation within the territories, and the Directors believe that there is a substantial market there that would require Xybernaut's solutions and products. Xybernaut China Limited's HK Office was officially set up in April 2004, and has already established offices in Beijing and Shenzhen. Xybernaut China Limited has also established strategic relations with a number of value-added resellers and co-marketing partners in China, including the establishment of a research and development centre in Beijing for wearable/mobile computing technology, in cooperation with Beihang University.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Consulting, Marketing and Technology Services Division (continued)

Education-technology products manufacturer Sun-Tech International Group Ltd. has sustained positive sales growth locally and overseas, including North America, Europe, the Middle East and Asia. During 2004, Sun-Tech successfully strengthened their marketing efforts with increased media coverage and attending various key exhibitions and conferences, and was awarded the prestigious 2004 Hong Kong Awards for Industry: Technological Achievement Award. In 2005, Sun-Tech will unveil their latest products, which include a line of new language laboratory product items and the latest AV Controller — PRO-ONE MINI. Sun-Tech has also strived to encourage its overseas distributors to aggressively participate in leading technology exhibitions in the US and Europe.

IMHA (<http://www.imh-asia.com>) currently owns and operates Focus Media Hong Kong and Focus Media Singapore. Focus Media Hong Kong is the Television Network delivered on its patented high-resolution and synchronized LCD TV monitors located in the elevator waiting areas of close to 200 high-end business and commercial buildings in the prime business districts of Hong Kong, reaching a substantial number of business executives, on a daily basis. In January 2005, IMHA launched Focus Media Singapore and plans to export this business model to Japan and beyond. Hong Kong and Singapore are well known for its hectic and fast-paced lifestyle. The number of business executives being reached by traditional media is much lower than any other group of audience. Through this unique new medium, advertisers will be able to reach this highly desired class of audience in a totally captive environment. Exclusively through Focus Media Hong Kong and Focus Media Singapore, advertisers targeting Mainland China's business executives will also have access to the extensive network of Focus Media China, a shareholder of Focus Media Hong Kong, which is currently available at over 10,000 venues across 37 cities in the nation.

4. Garment Manufacturing Division

The garment manufacturing business accounted for approximately 55% of the Group's turnover. It recorded a turnover of HK\$58,791,000 (2003: HK\$67,843,000) and an operating profit of HK\$1,086,000 (2003: HK\$1,675,000) for the year ended 31 December 2004.

5. Property Holding Division and Others

The Property Holding Division and others accounted for approximately 8% of the Group's turnover. The division's turnover amounted to HK\$8,124,000 (2003: HK\$8,801,000) and an operating profit of HK\$4,092,000 (2003: HK\$7,237,000) was recorded for the year ended 31 December 2004. The operating profit was mainly due to the gain of HK\$420,000 (2003: HK\$1,242,000) on disposal of an investment property and the surplus of HK\$4,130,000 (2003: HK\$5,782,000) on revaluation of the investment properties.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group maintains an optimistic outlook for the coming year. The territory has seen a healthy increase in activity in the retail, property and stock markets, and all economic indicators point towards sustained overall growth. China's economy is also growing strongly. GDP growth in the PRC reached 9.5% in 2004, reaccelerating in the last quarter. We will continue to recoup and to readjust our objectives and strategies to best suit the reviving market environment and will continue to increase our exposure and seek further opportunities both in Hong Kong and neighbouring regions, particularly in China in a prudent and diligent manner through direct investment, venture capital funds and joint venture programmes with strategic partners.

The Group believes that it has fully transformed into an investment holding company and will continue to strive in order to fully focus and capitalise on its strengths. As predicted last year, deconsolidation of accounts of its financial services arm and the further deconsolidation of other non-core units under the Group reduced the Group's turnover, nonetheless the Group has managed to achieve a profitable status, having successfully reinforced its core areas of activities within the investment field and working to develop the strengths of earlier joint ventures as well as creating further shareholder value via its fund investments work.

The Group's results for the year ended 31 December 2004 have been the most encouraging in the last decade and, in a bid to further capitalise on the recovering economy and the Group's success over the past year, the Group is planning to seek further opportunities in Macau. In this connection, the Group is currently engaged in ongoing discussions and negotiations with several parties concerning the construction and operation of a large-scale, state-of-the-art multimedia amusement and entertainment hub in the Macau SAR. The potential partners include a significant Hong Kong company and leading games operators from Japan, Korea, and the USA.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group's bank and cash balances totalled HK\$61,124,000 (31 December 2003: HK\$37,387,000).

On 28 August 2002, the Company, through its wholly-owned subsidiary SIIS Treasury Limited, issued 5% guaranteed convertible notes due 2005 (the "2005 Notes") with principal amounts of HK\$156,400,000. During the year ended 31 December 2004, a HK\$8,300,000 principal amount of the 2005 Notes was converted into 69,166,666 ordinary shares of the Company.

On 2 February 2004 and 13 February 2004, the Company, through its wholly-owned subsidiary SIIS Treasury Limited, issued 5% guaranteed convertible notes (collectively the "2006 Notes") with principal amounts of HK\$33,200,000 and HK\$14,800,000, which are due on 2 February 2006 and 13 February 2006 respectively. During the year ended 31 December 2004, a HK\$30,700,000 principal amount of the 2006 Notes was converted into 307,000,000 ordinary shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 December 2004, the outstanding principal amounts of the 2005 Notes and the 2006 Notes were HK\$5,000,000 (31 December 2003: HK\$13,300,000) and HK\$17,300,000 (31 December 2003: N/A) respectively.

As at 31 December 2004, the Group's total outstanding borrowings (excluding the above mentioned convertible notes) amounted to HK\$83,335,000 (31 December 2003: HK\$82,802,000). The total borrowings will be repayable, as to approximately HK\$3,774,000 within one year and the remainder of approximately HK\$79,561,000 between two to five years. Included in the total borrowings are amounts denominated in Japanese yen and Renminbi which were equivalent to HK\$79,561,000 and HK\$3,774,000 respectively. The borrowings denominated in Japanese yen were borrowed from former group companies in Japan against which the Company does not hedge the related foreign exchange fluctuation risk. Owing to this foreign exchange fluctuation, the Company recorded a HK\$3,363,000 exchange loss for the year ended 31 December 2004 (2003: HK\$8,923,000).

As at 31 December 2004, the shareholders' funds of the Group totalled HK\$238,892,000, and the gearing ratio of the Group was 35% (31 December 2003: 45%), calculated by dividing the total borrowings, excluding convertible notes, of HK\$83,335,000 (31 December 2003: HK\$82,802,000) by the shareholders' funds of HK\$238,892,000 (31 December 2003: HK\$184,040,000).

CHARGES ON GROUP ASSETS

As at 31 December 2004, the Group's banking facilities were secured by properties of the Group with net book value of HK\$5,378,000 (31 December 2003: HK\$12,112,000).

CONTINGENT LIABILITIES

E2-Capital (Holdings) Limited has provided a guarantee to a bank for a maximum amount of HK\$143,000,000 in relation to banking facilities granted by the bank to common associated companies. The Company has provided a counter indemnity to E2-Capital (Holdings) Limited for a maximum limit of HK\$49,040,000, representing the Group's 34.3% shareholding in these associated companies. As at 31 December 2004, there was no utilisation of such banking facilities.

On 25 October 2004, two undertakings granted in favour of the Monetary Authority of Singapore in respect of the obligations and liabilities of Westcomb Capital Pte Ltd (formerly SBI E2-Capital Pte Ltd) and Westcomb Securities Pte Ltd (formerly SBI E2-Capital Securities Pte Ltd) were terminated.

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EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the total number of employees of the Group was approximately 750. The employees are offered discretionary bonuses based on merit and performance. Employee benefits amounted to approximately HK\$28,584,000 for the current year (2003: HK\$64,226,000). The Group also encourages and subsidises employees to enrol in external training courses and seminars organised by professional bodies. Employees of the Group are eligible to be granted share options under the Company's share option scheme at the discretion of the Board. The Group also provides other benefits to the employees including retirement benefits and medical scheme.

By Order of the Board

DATO' WONG SIN JUST DIMP

Chief Executive Officer

HONG KONG, 17 March 2005