



The investment environment during the year proved to be challenging with rising interest rates and higher energy prices. However, the Group nevertheless managed to achieve a positive return during this year with a profit attributable to shareholders of HK\$50.5 million (2004: HK\$67.1 million) contributed mainly by sales and appreciation of properties held by the Group's properties division and steady performance of the investment and industrial divisions.

The Group maintains a quick ratio of 4.52 times as compared with 6.23 times at 31 December 2004, calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over total current liabilities. Since cash proceeds from the sales of investment securities and properties were reinvested to further Group activities, Group bank and cash balances after distributing the 2004 final dividend of HK\$20 million and 2005 interim dividend of HK\$10 million, still stayed at a comfortable level of HK\$96 million at 31 December 2005 (2004: HK\$223 million) with the Parent Company remaining debt free and keeping its cash and bank balance at HK\$69 million as at 31 December 2005 (2004: HK\$190 million).

Consolidated shareholders' funds and net tangible assets per share increased to HK\$594 million and HK\$1.48 respectively at 31 December 2005 (2004: HK\$567 million and HK\$1.41 respectively), as a result of earnings retained for the year ended 31 December 2005, adjusted for the distribution of the 2004 final dividend of HK\$20 million and 2005 interim dividend of HK\$10 million.



Financial Services

Hong Kong/China

The performance of the division was adversely affected by higher oil prices and interest rates during the year. Although there has been a welcome recovery in equity prices both in Hong Kong and China in the second half of the year, this was mainly confined to large size China companies. Due to investors' caution over smaller enterprises, this has inadvertently adversely affected the performance of our investment banking division. As a result, the Hong Kong/China division, SBI E2-Capital China Holdings Limited which is now re-named as SBI E2-Capital Asia Securities Limited, recorded a net loss before tax of HK\$5 million for the year ended 31 December 2005 (2004: a net profit before tax of HK\$6.8 million).

Notwithstanding these unfavourable factors, we have completed several share placements during the year, which included China Fire Safety Enterprise Group Holdings Limited, SunCorp Technologies Limited, Fu Ji Food and Catering Services Holding Limited and Heng Tai Consumables Group Limited as well as the pre-IPO fund raising of HK\$100 million for Asian Citrus Holdings Limited, which has since been listed on London's Alternative Investment Market in early August 2005.



The upgrading of our management information system was completed early this year and with further tightening of our credit policy, our provision for bad and doubtful debts continues to be adequate and no material provision is considered necessary for 2005.

We are pleased that the financial services industry continues to recognize our market niche as SBI E2-Capital has been recognized in the financial services sector for the third consecutive year as the Best Local Brokerage House – Hong Kong 2003, 2004 and 2005 as well as the Best Domestic Equity House – Hong Kong 2004 and 2005 by *Asiamoney*. This is a testimony of the quality of our research products and reception by the market. Our research team has further expanded during the year with increased coverage on China related stocks and larger companies.

The revaluation of the Renminbi in late July 2005 and the coming reforms in the China Stock Market are expected to have a positive impact on the China/Hong Kong markets. We are hopeful that this will encourage further investments in this region with an increase in market activities in 2006, which should help the brokerage business for the coming year.

Singapore/Malaysia

Concurrent with the disposal of the equity interest in our former associated company in Singapore, Westcomb Financial Group Limited, which was completed in January 2005, the Group has set its focus on the development of its established SBI E2-Capital brand name in Singapore and Malaysia in view of the growing importance of these regional economies in the Asia Pacific region. We are pleased to report that in August 2005, SBI E2-Capital Asia Securities Pte. Ltd. ("SECA"), a subsidiary of our financial services joint venture, was granted a Capital Markets Services licence by the Monetary Authority of Singapore ("MAS") to deal in securities and provide corporate finance advisory services and was admitted as a clearing member of the Singapore Exchange. Moreover, we are pleased that SECA has successfully co-led the listing of China Fishery Group Limited on the Main Board of the Singapore Exchange in January 2006 and has established its relationship with reputable clients in the Middle East such as Dubai Investment Group LLC. We believe SECA is well positioned to play a vital role in the Singapore/Malaysia financial services sector in linking investors in those markets with China/Hong Kong enterprises and vice versa in coming years.

SBI CROSBY

SBI CROSBY Limited ("SBI CROSBY"), a 50/50 joint venture of our 49% owned financial services unit, has successfully obtained the licenses from the Hong Kong Securities and Futures Commission in the first quarter of 2005. During the year, SBI CROSBY has provided corporate advisory services in relation to pre-IPO fund-raisings and IPO sponsorships and has achieved a revenue of HK\$16.6 million and recorded a net profit before tax of HK\$2.8 million. The management believes that SBI CROSBY will continue to facilitate the performance of the Group's Greater China business with a wider network to originate new mandates in the region.

Fund of Funds

Despite the uncertainties in interest rate and energy prices, the Group continues to focus on increasing shareholders wealth through prudent management and selective investments and capture market opportunities that produce creditable returns to the Company. Winslow Asset Management Limited ("Winslow"), a Limited Partnership type of investment vehicle to allocate funds to promising General Partnership in hedge funds and venture capital with portfolio up to HK\$100.4 million as at 31 December 2005, performed well and contributed a turnover and operating profit of HK\$119.7 million and HK\$7.7 million respectively during the year. Going forward, we have decided to streamline and institutionalize our direct investment activities via investing in institutional funds such as Axix Asia Absolute Fund and CM Investment Advisers (Singapore) Pte Ltd. We will invest 3 to 5 more funds in this year and expect they can contribute a fruitful result to the Group in 2006.

Digital Consumer Products

The sourcing and distribution of digital music players business, operated through our wholly owned subsidiary, NAPA Global Limited ("NAPA Global"), has contributed HK\$1.1 million revenue to the Group during the year. We expect the division's performance will improve in 2006 as a result of anticipated growth in demand for the digital consumer products in the global markets. As we work closely with our customers and orders are closely monitored, no undue inventory risk was taken. In 2006, we will continue exploring to develop the South East Asia and European markets with more mature products which should allow us to take advantages of economies of scale and lower the cost of procurements.

Industrial

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 2005, its revenue and net profit before tax stood at HK\$161 million and HK\$31 million respectively (2004: HK\$106 million and HK\$30 million respectively). On 31 October 2005, Winbox International (Holdings) Limited ("Winbox International"), a company incorporated in the Cayman Islands which will become the immediate holding company of Winbox, has applied for an advance booking to





the Stock Exchange for the listing of its shares on the main board of the Stock Exchange by way of introduction ("Proposed Listing"). In connection with the Proposed Listing, the Board is considering to declare a dividend to the shareholders of the Company by way of distribution in specie of all the shares of Winbox International to be held by the Company ("Proposed Distribution") subject to the granting of approval from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the shares of Winbox International on the main board of the Stock Exchange. The Board believes that the Proposed Distribution would provide the shareholders with financial flexibility by virtue of their direct holdings of the shares in Winbox International as a result of the Proposed Distribution.

The Group's industrial business, operated through Cheung Wah Ho Dyestuff Company Limited and Lancerwide Company Limited, remained steady with a contribution of HK\$21.4 million (2004: HK\$37.6 million) to the Group's turnover. However, with the uncertainties in the textile quota issues and keen competition in the region, the dyestuff business reported a loss before tax of HK\$2 million (2004: HK\$512,000) for the year ended 31 December 2005. The trading of dyestuff is expected to remain challenging 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 Group increased its land bank by acquiring 2 residential sites for redevelopment, No 21 Grampian Road and the majority share of Nos 23 & 25 Grampian Road in Kowloon Tong. They lie within a traditional prime residential area with many famous schools in the vicinity. The site areas are 11,935 sq ft and 10,230 sq ft respectively. They can be redeveloped to a high-rise luxurious residential building.

Greenery Gardens, the residential development developed by GPL at Fairview Park Boulevard in Yuen Long, was recognized as one of the best villa developments in the vicinity. The Hong Kong Institute of Surveyors has granted an award "2005 Top 10 Flat Layout" to GPL. GPL will develop Greenery Gardens Phase II at an adjacent site into a low-density luxurious villas development. Site assembly and planning are currently in progress.

The Group sold its industrial building at Nos 12-16 Fui Yiu Kok Street in Tsuen Wan. The transaction was completed in June 2005 and the Group received cash proceeds of HK\$48.5 million from this transaction with a gain of HK\$28.7 million.

The site for single residence development at Tso Wo Hang in Sai Kung was sold and the transaction was completed in December 2005. The Group received cash proceeds of HK\$39.4 million with a profit of HK\$19.7 million.

After the above disposals, the Group will have more financial resources to participate in sizeable new projects with higher profitability and return.



MANAGEMENT DISCUSSION AND ANALYSIS

The Shanghai Tianma Project, which was 13.35% held by the Group (2004: 13.35%), comprises 200 luxurious 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 in full operation, with positive contribution to the project. It has been recognized as one of the best golf clubs in China by many magazines including China Golf Magazine and Golf Digest for many years. Also, it has achieved significant progress in villas and club memberships sales. We believe the macro economic austerity measures in China will favour those capable property developers in the market, particularly in the Shanghai luxurious 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 is likely to become more active. In order to capture this business opportunity, GPL will also continue to seek opportunities to expand its land bank in Hong Kong. As well, GPL will explore more business opportunities in the PRC.

GPL is also participating in other property and environmental related projects, including a centralized drinking water filtration system, which has been installed in several popular developments in Guangdong, e.g. Clifford Estate, the largest residential development in China. The current number of customers is more than 15,000 households. As part of its business extension, 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 Guangdong province, China.



Community Relations

E2-Capital Group has been actively participating in community service under the SBI E2-Capital brand name. We have supported and participated in charity events organized by The Community Chest such as Disney Charity Day (4 September 2005), Dress Casual Day (30 September 2005), and The World's Biggest Donation Box (4 November 2005) just to name a few. The Group has, for the first time, sponsored the Masters Games 2005/6 (October 2005 - February 2006), a community sports competition organized by the Leisure and Cultural Services Department, HKSAR Government. The Masters Games stretched over five months and included games like table tennis, tennis, lawn bowling, distance running, swimming, tai chi, golf (driving range), orienteering, gateball, and badminton. SBI E2-Capital Group also supports youth developments through events such as The Hong Kong Youth Arts Festival (1 December 2005) and we have a football team 'HK08' currently playing in the First Division. E2-Capital's business philosophy is to be a respected employer and steadfast community partner by giving back to the community in which we live and work. In the coming year, E2-Capital Group will continue our commitment to community service.

Liquidity and financial resources

As at 31 December 2005, the Group's cash and other short-term investments in securities totaled HK\$211 million (2004: HK\$288 million). Of the total borrowings of HK\$175 million (2004: HK\$26 million), approximately 99% are loans secured by leasehold land and properties for development located in Hong Kong, with the balance secured by mortgage loans receivable. Of these borrowings, HK\$1 million is repayable within one year.

Liquidity of the Group is kept at a healthy position with a quick ratio of 4.52 times as at 31 December 2005 as compared with 6.23 times as at 31 December 2004, 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 2005, calculated on the basis of long term debt over shareholders' fund, is 35.43% as compared with 0.28% at 31 December 2004.

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.

The Company has provided corporate guarantees for banking facilities extended to group companies, further details are described in the section under "Contingent Liabilities".

Capital structure of the group

The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The Group's borrowings are denominated in Hong Kong dollars 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 2005, the Group and the jointly controlled entity employed a total of 41 and 66 full-time employees respectively. 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\$15.3 million for the year ended 31 December 2005. The Group ensures that the remunerations paid to employees remain 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 2005, leasehold land and land use rights and properties for sale/development with an aggregate value of approximately HK\$357 million have been pledged to secure banking facilities of HK\$172 million granted to Group companies for these developments.

Contingent Liabilities

During the year, corporate guarantees were given to financial institutions for working capital facilities of associated companies and a jointly controlled entity. The aggregate amount of such facilities utilized by these companies at 31 December 2005 amounted to HK\$125.8 million (2004: HK\$39 million).

During the year, corporate guarantees given to financial institutions for a third party had been discharged.

Exposure to fluctuations in exchange rates

As at 31 December 2005, the Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Prospects

We expect 2006 will continue to be challenging with the uncertainties in the direction of interest rates and energy prices, as well as the inverted yield curve and the twin deficits in the U.S.. However, the Group's management is well positioned to face the challenge with its conservative management of financial and human resources and will continue to take a prudent approach in allocating resources into projects with high return and limited capital outlay. As Asia Pacific, especially China, is expected to lead the global economy in the next decade, this region will continue to be a major focus within our investment universe. The Company will continue to transform itself into an integrated financial services provider and investment firm and set its focus on identifying and converting viable business opportunities to deliver long term and sustainable values to our shareholders, partners, employees and customers.