MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

With effect from 1 January 2005, the Company is required to prepare its accounts in accordance with HKFRSs. The resulting changes in accounting policies and presentation of various profit and loss and balance sheet items may render certain comparative figures not strictly comparable. Details of such changes and the financial impacts are set out in note 1 to the accounts.

The Company recorded a consolidated turnover of HK$112,405,000 (of which HK$25,781,000 was attributable to jointly controlled entities) for the year ended 31 December 2005, compared with HK$109,053,000, as restated, (of which HK$2,650,000 was attributable to jointly controlled entities) for the same period in 2004. On 1 January 2005, SBI E2-Capital Limited ("SBI E2") has become a jointly controlled entity of the Company. Following the adoption of new HKFRSs, the Group's interests in jointly controlled entities are accounted for by way of proportionate consolidation instead of equity method, and therefore various individual items in the Company's consolidated accounts have been reclassified.

The loss attributable to shareholders for the year ended 31 December 2005 was HK$93,594,000. This contrasts with the profit of HK$6,293,000, as restated, recorded in 2004. This loss was mainly attributable to impairment losses of assets of HK$37,020,000 and losses suffered by associated companies of HK$33,575,000, (including an impairment loss of HK$27,842,000 in respect of goodwill on acquisition of the associated companies). These impairment losses were made after due consideration of the prevailing financial positions and circumstances of the subject investees and financial assets, and have no impact on the Group's operations and cash flows.

Basic loss per share was HK2.17 cents (2004: basic earnings per share of HK0.15 cents, as restated).

BUSINESS REVIEW

While the Group has worked tirelessly to focus its resources on readjusting its objectives and strategies to capitalise on the reviving market environment, it has nonetheless also been confronted with a number of new challenges. In particular, the Group has had to make certain impairment losses ensuing from previous investments.

Nonetheless, the Group shall continue to build upon its existing areas of strength while at the same time forging new frontiers both geographically and in terms of its investment opportunities.

1. Investment Holding Division

The Investment Holding Division contributed approximately 2% of the Group's turnover. It recorded a turnover of HK$2,487,000 (2004: HK$8,182,000) and an operating loss of HK$62,559,000 (2004: operating profit of HK$1,792,000, as restated) for the year ended 31 December 2005. The loss was mainly attributable to impairment losses of assets of HK$33,178,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

1. Investment Holding Division (continued)

The division performed impairment assessments of its investment securities and loan receivables. In view of the continually difficult operating environment and changes in market dynamics of the sectors in which the investees operate as well as their financial position, the division has made an impairment loss of HK$7,506,000 and HK$25,672,000 in respect of a loan receivable and investment securities respectively.

During the course of the year, the division mainly focused its resources on managing existing investments.

Subsequent Events

In January 2006, a 14.87% owned investee company entered into an agreement with an independent third party whereby the investee company agreed to dispose its 100% equity interest in M Dream China (Holdings) Limited ("M Dream"). M Dream is a leading mobile phone game developer and service provider in China. The Group is expecting a substantial dividend from the investee company upon the finalisation of the disposal of M Dream in accordance with the sale terms and the agreement among the shareholders of the investee.

In March 2006, the Group entered into an agreement to purchase 10% of the equity interest in Noble World International Limited ("NWI"). NWI has been appointed as an exclusive consultant to China Gloria Investment & Management Co., Ltd., one of the very few organizations that is authorized to provide lottery sales agency and marketing services in the PRC, currently having signed long term strategic cooperation contracts with five provinces/cities, namely the cities of Shanghai, Haikou, Chongqing and Wuhan as well as the province of Heilongjiang.

2. Financial Services Division

The performance of the Financial Services Division comprises of the fund management business, which is operated by SIIS Investment Management Limited ("SIM"), and the financial services group under SBI E2. SBI E2 has become a jointly controlled entity of the Company on 1 January 2005 and its results have since been proportionately consolidated. Prior to 1 January 2005, SBI E2 was an associated company of the Company and its results had been equity accounted for in the consolidated accounts.

The Financial Services Division contributed approximately 26% of the Company's consolidated turnover. It recorded a turnover of HK$29,064,000 (2004: HK$15,127,000, as restated) and an operating loss of HK$10,114,000 for the year ended 31 December 2005 (2004: operating profit of HK$9,697,000, as restated). The loss was mainly due to the impairment of goodwill of SIM of HK$3,842,000 and a provision of HK$8,915,000 for clawback of fund performance fee income recognised in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

2. Financial Services Division (continued)

Financial Services Group

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 (re-named 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, the division has 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 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 planned reforms in the China stock markets are expected to have a positive impact on the China/Hong Kong markets. We are hopeful that this will encourage further investments in the region with an increase in market activities in 2006, which should enhance the brokerage business for the coming year.

SBI CROSBY Limited ("SBI CROSBY"), a 50/50 joint venture of our 49% owned financial services group, has successfully obtained 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 SBI E2's Greater China business with a wider network to originate new mandates in the region.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

2. Financial Services Division (continued)

SINGAPORE/MALAYSIA

In 2005, SBI E2 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 group, was granted a Capital Market Services Licence by the Monetary Authority of Singapore 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 that SECA is well positioned to play a vital role in the Singapore/Malaysia financial services sector linking investors in those markets with China/Hong Kong enterprises and vice versa in coming years.

3. Media, Consulting, Marketing and Technology Services Division

The Media, Consulting, Marketing and Technology Services Division accounted for approximately 18% of the Group's turnover. For the year ended 31 December 2005, the division recorded a turnover of HK$20,089,000 (2004: HK$18,829,000, as restated) and an operating profit of HK$1,475,000 (2004: loss of HK$5,102,000, as restated).

The division mainly comprises the education technology services operated by Sun-Tech International Group Limited ("Sun-Tech"), a non-wholly owned subsidiary of the Company, media business operated by iMediaHouse Asia Limited ("IMHA"), an associated company of the Company, and the sale and provision of IT technology products by Supresoft Imagis Inc ("Supresoft"), an associated company of the Company.

Education-technology products manufacturer Sun-Tech has sustained positive sales growth locally and overseas, including the Americas, Europe, the Middle East and Asia. Sun-Tech and its overseas distributors in the US and Europe aggressively participated in leading technology exhibitions. Sun-Tech was awarded the Microsoft Networking Infrastructure Solutions Competency. Looking forward Sun-Tech will continue investing on the expansion of overseas markets, and the R & D of advanced products, which tailor the needs of both the education and corporate markets.

Reflecting the increasingly competitive environment, and the operations as well as the profitability potential of the associated companies, the Group has determined it is appropriate to make a goodwill impairment of HK$27,842,000 for the year ended 31 December 2005 in respect of the previously acquired associated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

4. Garment Manufacturing Division

The Garment Manufacturing Division is operated by our 51% owned subsidiary, Foshan Chande Knitting Enterprise Company, Limited, which is located in Foshan City, Guangdong province. The division accounted for approximately 48% of the Group's turnover. It recorded a turnover of HK$53,679,000 (2004: HK$58,791,000) and an operating profit of HK$1,206,000 (2004: HK$1,086,000) for the year ended 31 December 2005. Despite the tight competitory nature of the business, the division was able to maintain a steady contribution to the Group. With the ongoing growth of PRC domestic consumption, the division will continue to strengthen it's exposure in the PRC markets, and foresee future contribution to maintain at the current level.

5. Property Holding Division and Others

The Property Holding Division and others accounted for approximately 6% of the Group's turnover. The division's turnover amounted to HK$7,086,000 (2004: HK$8,124,000) and an operating profit of HK$3,230,000 (2004: HK$4,092,000) was recorded for the year ended 31 December 2005. The operating profit included a gain of HK$3,580,000 (2004: HK$4,130,000) on revaluation of investment properties.

PROSPECTS

The Group is optimistic of the general economic environment for the coming year.

Over the past year, the Group has focused its resources on readjusting its objectives and strategies to capitalize on the reviving market environment. We believe that this strategy has helped to lay down solid foundations for a turnaround in prospects and will put us in good stead for sustained development.

The Group will continue to maintain its vision in developing strong and diversified investment businesses in the Greater China and the Asia Pacific region through direct investments as well as continuing to participate proactively in the overall strategic planning and business development of investee companies. While continuing to provide management and consultation services to, as well as devising strategies for, existing investee companies to suit the reviving regional market environment, the Group will also be actively planning its future investment strategies in the neighbouring Pearl River Delta region and the South East Asian economies, where it will both cooperate with existing investee companies to expand their markets as well as provide venture capital to more established startup businesses.

The work of concluding the challenges ensuing from previous investments is gathering pace and we foresee that, along with the strong recovery of the Hong Kong economy and the sustained growth of the PRC market, our readjusted strategy will bear fruit as early as the coming year. On the back of this, the Group intends to launch new investment and fund management initiatives.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMUNITY RELATIONS

The Group remains a supporter of the Community Chest. In 2005, the Group successfully raised funds for the Chest through various fund raising programmes, such as Dress Casual Day and Disney Charity Day. 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 of the HKSAR Government. In addition, the Group also supports youth development through events such as the Hong Kong Youth Arts Festival. To this we add our wider responsibility to be a good corporate citizen; one which takes pride in making significant contributions to community programmes in which we can add value.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Company's consolidated bank and cash balances totalled HK$83,133,000 (31 December 2004: HK$66,670,000, as restated). Of the consolidated bank and cash balances, HK$35,726,000 was attributable to the jointly controlled entities (31 December 2004: HK$5,546,000).

On 28 August 2002, the Company, through its wholly-owned subsidiary, SIIS Treasury Limited, issued 5% guaranteed convertible notes due 2005 (the "2005 Notes"). There was no conversion in 2005. On 25 August 2005, the Group entered into a supplemental agreement with the noteholder whereby the maturity date of the outstanding 2005 Notes in the principal amount of HK$5,000,000 has been extended from 29 August 2005 to 28 August 2008. Save as the extension of the maturity date, all other terms and conditions remain unchanged.

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 2005, a HK$2,300,000 principal amount of the 2006 Notes was converted into 23,000,000 ordinary shares of the Company. As at 31 December 2005, the outstanding principal amounts of the 2006 Notes were HK$15,000,000 (31 December 2004: HK$17,300,000). On 2 February 2006, the Group entered into a new subscription agreement with a noteholder under which the Group agreed to issue 6% guaranteed new convertible notes of HK$14,000,000 due in February 2009 to supersede the 2006 Notes with the same principal amount. The remaining outstanding principal amounts of HK$1,000,000 of 2006 Notes were fully redeemed on 13 February 2006.

As at 31 December 2005, the Company's total outstanding consolidated borrowings (excluding the above mentioned convertible notes) amounted to HK$72,897,000 (31 December 2004: HK$83,335,000). The total borrowings will be repayable, as to approximately HK$3,846,000 within one year and the remainder of approximately HK$69,051,000 between two to five years. Included in the total borrowings are amounts denominated in Japanese yen and Renminbi which were equivalent to HK$69,051,000 and HK$3,846,000 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$10,510,000 exchange gain on translation for the year ended 31 December 2005 (2004: exchange loss of HK$3,363,000).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 December 2005, the consolidated equity totalled HK$221,148,000, and the gearing ratio was 33% (31 December 2004: 31%), calculated by dividing the total borrowings, excluding convertible notes, of HK$72,897,000 (31 December 2004: HK$83,335,000) by the consolidated equity of HK$221,148,000 (31 December 2004: HK$268,041,000, as restated).

CHARGES ON GROUP ASSETS

As at 31 December 2005, the Group's banking facilities were secured by properties of the Group with a net book value of HK$5,363,000 (31 December 2004: HK$5,378,000).

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 31 to the accounts.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, the total number of employees of the Group was approximately 760 (excluding employees of jointly controlled entities). The employees are offered discretionary bonuses based on merit and performance. 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
Vice Chairman & Chief Executive Officer

HONG KONG, 30 March 2006