

# MANAGEMENT DISCUSSION AND ANALYSIS



Despite the challenging and volatile investment environment, the Group successfully managed to sustain its profitability and maintained respectable growth in 2006 with a profit attributable to shareholders of HK\$54 million (2005: HK\$50.5 million) as a result of the steady performance of our financial services and proprietary asset management divisions.

The Group maintains a quick ratio of 4.48 times as compared with 4.46 times at 31 December 2005, calculated on the basis of total bank and cash balance, short term investments in securities and accounts receivable over total current liabilities. Group bank and cash balances after distributing the 2005 final dividend of HK\$20 million, still stayed at a comfortable level of HK\$151 million at 31 December 2006 (2005: HK\$96 million) with the Parent Company remaining debt free and keeping its cash and bank balance at HK\$89 million as at 31 December 2006 (2005: HK\$69 million).

Consolidated shareholders' funds and net tangible assets per share were HK\$576 million and HK\$1.44 respectively at 31 December 2006 (2005: HK\$594 million and HK\$1.48 respectively), as a result of earnings retained for the year ended 31 December 2006, adjusted for the distribution of the 2005 final dividend of HK\$20 million and 2006 interim dividend of HK\$60 million which was satisfied wholly by a distribution in specie of Winbox shares held by the Group which representing 38% of the issued share capital of Winbox immediately prior to its listing.

## Financial Services

### Hong Kong/China

The local securities market remained robust throughout 2006, and was filled with optimism and excitement in anticipation of continued growth in corporate profits. Speculation over RMB appreciation and economic growth in China attracted capital inflows to Hong Kong, particularly into China-related shares. The IPO market was strong and many new issues recorded very high over-subscription rate. As a result, the Hong Kong/China division, SBI E2-Capital Asia Securities Limited (formerly known as SBI E2-Capital China Holdings Limited) recorded a net profit before tax of HK\$17 million for the year ended 31 December 2006 (2005: a net loss before tax of HK\$5 million).

During the year, we completed several share placements which included Ko Yo Ecological Argotech (Group) Limited, Pico Far East Holdings Limited, China Seven Star Shopping Limited and China Oil and Gas Group Limited, etc. Regarding IPOs, we were the joint bookrunner and joint lead manager in the listing of DBA Telecommunication (Asia) Holdings Limited, the joint sponsor in the listing of Jilin Qifeng Chemical Fiber Co., Ltd as well as the lead manager in the listing of Hembly International Holdings Limited.

With the adoption of an effective credit policy, no significant provision for bad and doubtful debts was recorded.

We are pleased that SBI E2-Capital continues to be recognized as premium brand names among the financial services industry as SBI E2-Capital has been recognized for the fourth consecutive year as the Best Local Brokerage House – Hong Kong from 2003 to 2006 by Asiamoney. Our research team has played an important role in providing a value-added services to the brokerage business and their reports were well received by the market. During the year, the research team has increased its coverage to China-related stocks and larger companies.

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We are generally optimistic about the business outlook of 2007 in anticipation of the strong economic growth in Hong Kong and China. We hope this will encourage further investments in this region with an increase in market activities in 2007, which should help the brokerage business in the coming year.

## Singapore

During the year, the Group has continued to focus on the development of its established SBI E2-Capital brand name in Singapore. SBI E2-Capital Asia Securities Pte. Ltd. ("SECA"), a subsidiary of our financial services joint venture, registered an impressive revenue of SGD4.1 million as compared to SGD73,000 in 2005. SECA participated in two best performing IPOs in Singapore Exchange in 2006 namely, China Fishery Group and Sino-Environmental Technology Group. SECA also participated in a few secondary placement deals namely Central Petroleum Limited (listed in ASX), Ferrochina, Jiutian Chemical Group, See Hup Seng and AusGroup (listed in SGX) etc.. We believe SECA will continue to play a vital role in Singapore financial services sector in linking investors in those markets with China/Hong Kong enterprises in 2007.

## SBI CROSBY

SBI CROSBY Group ("SBI CROSBY"), a non-wholly owned subsidiary of our 49% owned financial services unit, has achieved a revenue of HK\$18.7 million (2005: HK\$16.6 million) and recorded a net profit before tax of HK\$3.2 million (2005: HK\$2.8 million). In July 2006, SBI CROSBY acted as the joint sponsor and co-lead manager in the listing of Hembly International Holdings Limited. The management believes that SBI CROSBY will continue to facilitate the performance of the Group's Greater China business in 2007.

## Fund of funds

Despite the uncertainties in interest rate and energy prices, global financial markets recorded another year of solid performance mainly attributable to continued economic and corporate earnings growth. The Group will continue to take a prudent approach in managing investment risks while capturing market opportunities that produce respectable returns to the Company. During the year, more efforts have been channeled to our direct investment initiatives with the objective of transforming the Company into an integrated investment firm. Our direct investments totaled HK\$154.5 million as at 31 December 2006 (2005: HK\$100.4 million) comprising a portfolio of listed securities, pre-IPO equity participations, investments in the emerging markets as well as institutional funds. The results of this portfolio have been very encouraging and the Group has recorded a turnover and operating profit of HK\$76.4 million and HK\$90.9 million respectively for the year (2005: HK\$11.7 million and HK\$7.7 million). In future, to streamline resources, the business would be outsourced to SBI E2-Capital Asset Management who will run it as a managed account.

## 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\$17.8 million (2005: HK\$21.4 million) to the Group's turnover. Owing to pressure exerted by increase in commodity prices and operating expenses, the dyestuff business reported a loss before tax of HK\$2 million (2005: HK\$2 million) for the year ended 31 December 2006. The trading of dyestuff is expected to remain challenging in the coming year.



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In order to raise the corporate profile and to broaden the shareholders' base, Winbox, an associated company of the Group which operated its packaging business principally out of China, was successfully listed on the Main Board of the Hong Kong Stock Exchange in June 2006. Our entire interest in Winbox had been distributed to our shareholders by way of dividend in specie and Winbox ceased as an associated company of the Group thereafter.

## Digital Consumer Products

The sourcing and distribution of digital music players business, operated through our wholly owned subsidiary, NAPA Global Group ("NAPA Global"), has contributed HK\$20.8 million revenue to the Group and recorded a loss before tax of HK\$3.5 million (2005: HK\$1.1 million and HK\$3.2 million).

In line with our corporate strategy to transform the Company into an integrated investment firm and to allocate our resources in a more efficient and rewarding manner, the management has decided to wind down this line of business in 2007.



## Property

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

No 21 Grampian Road and the majority share of Nos 23 & 25 Grampian Road in Kowloon Tong, the two residential sites that we acquired last year, 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 will be redeveloped to a medium-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 application are currently in progress.

The Shanghai Tianma Project, which was 13.35% held by the Group (2005: 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 a significant progress in villas and club membership sales. The development works for a new phase of villas have commenced and pre-selling has started by early 2007. We believe the macro economic austerity measures in China will favour those capable property developers in the market, particularly in the Shanghai luxurious villas 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 sites and flats, the Hong Kong property market is likely to become more active. After the disposal of industrial building at 12-16 Fui Yiu Kok Street in Tsuen Wan and the residential site at Tso Wo Hang in Sai Kung, the Group has more financial resources to participate in more sizeable new projects with higher profitability and return. In order to capture more business opportunities, GPL is very active in seeking opportunities in expanding its land bank in Hong Kong as well as exploring 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 continued to actively participate in community service in 2006 under the SBI E2-Capital brand name. SBI E2-Capital Asia Securities Pte Ltd, our Singapore unit, participated as the Diamond Sponsor at The Bull Run 2006 (10 November) organized by the Singapore Exchange. All proceeds raised from this event were allocated to 13 charitable organizations aimed at providing support to needy children and youths in Singapore.

We continued to partner with The Community Chest, with full support from our colleagues, in fundraising events such as the Run-up Two ifc Charity Race 2006 (3 December), Dress Special Day (29 September), and The Victoria Prison Decommissioning Ceremony (12 March). All proceeds were allocated to support the Chest's member social welfare agencies providing "Services for the Physically Disabled", "Family and Child Welfare Services" and "Aftercare Services for Ex-drug users & Ex-offenders" respectively.

In 2006, we have supported other organizations and their charity actions such as The University of Hong Kong to establish a new scholarship fund to help financially disadvantaged Chinese students realize their dreams for a university education in China; The Asia Society to provide a forum for building awareness in the Asia-Pacific region through supporting art exhibitions, performances, films, lectures, seminars, publications and programs for students and teachers; and The Outward Bound to sustain their mission to help people discover and develop their potential to care for themselves, others and the world around them through challenging experiences in unfamiliar settings.

The Bull Run 2006, Singapore



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Dress Special Day 2006, Hong Kong



Dress Special Day 2006, Hong Kong



Run-up Two ifc Charity Race 2006, Hong Kong



Football Team, HK08, Hong Kong



Our Executive Co-chairman, Dato' Wong Sin Just serves as a member of the Board of the Asian Youth Orchestra, Council Member of The Better Hong Kong Foundation, and a member of the Young President's Organization - Hong Kong Chapter.

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 2006, the Group's cash and other short-term investments in securities totaled HK\$232 million (2005: HK\$211 million). Of the total borrowings of HK\$175 million (2005: HK\$175 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 4.48 times as at 31 December 2006 as compared with 4.46 times as at 31 December 2005, 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 2006, calculated on the basis of long term debt over shareholders' fund, is 36.54% as compared with 35.43% at 31 December 2005.

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 dollar. 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 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 2006, the Group and the jointly controlled entity employed a total of 29 and 59 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\$19.3 million for the year ended 31 December 2006. 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 2006, leasehold land and land use rights and properties for sale/development with an aggregate value of approximately HK\$349 million have been pledged to secure banking facilities of HK\$172 million granted to Group companies for these developments.

### Contingent Liabilities

During the period, 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 2006 amounted to HK\$131.8 million (31 December 2005: HK\$125.8 million).

### Exposure to fluctuations in exchange rates

As at 31 December 2006, 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 year 2007 will continue to be challenging with the uncertainties that may affect the global and local investment sentiments such as high energy and commodity prices as well as the possibility of US economy slowdown. However, the Group's management is well positioned to face the challenge ahead with its proven management of financial and human resources. While we have been on track with our business plan so far, we will remain nimble and continue to work diligently on the businesses and investments that we know well bearing in mind always the objective of delivering sustainable value to our shareholders.