# MANAGEMENT DISCUSSION & ANALYSIS

## CONSOLIDATED FINANCIAL REVIEW

The Company recorded a consolidated turnover of HK$140,422,000 (of which HK$54,024,000 is attributable to jointly controlled entities) for the year ended 31 December 2006, compared with HK$112,405,000 (of which HK$25,781,000 is attributable to jointly controlled entities), for the year of 2005. Higher turnover recorded by our financial services segment contributed to the increase in turnover in 2006.

The loss attributable to shareholders for the year ended 31 December 2006 was HK$83,006,000, which was 11% below the previous financial year. This loss was mainly attributable to the expensing of fair value of share-based benefits of HK$12,077,000, impairment losses of assets of HK$23,708,000, and losses suffered by associated companies of HK$54,669,000.

Basic loss per share was HK1.75 cents (2005: HK2.17 cents).

## BUSINESS REVIEW

Over the past year, the Group has worked towards building upon its existing areas of strength while at the same time forging new frontiers both geographically and in terms of its investment opportunities. With the resurgence in market sentiment, the Group has seized the opportunity to divest its interest in a series of companies while marginally shifting its focus to its overseas interests, including its activities in Malaysia and the PRC, establishing what the Group considers to be the foundation for future growth.

### 1. Investment Holding Division

The Investment Holding Division contributed towards approximately 4% of the Group's turnover. It recorded a turnover of HK$6,348,000 (2005: HK$2,487,000) and an operating loss of HK$45,683,000 (2005: HK$62,559,000) for the year ended 31 December 2006. The loss was mainly attributed to the expensing of fair value of share-based benefits of HK$12,077,000, and impairment losses of assets of HK$23,708,000.

The Group has maintained its vision in developing strong and diversified investment and venture capital businesses in Greater China and the Asia Pacific region through direct investments, involvement in funds managed by the Company and continual proactive participation in the overall strategic planning and business development of investee companies.

Of particular notice has been the Group's entry into the PRC welfare lottery-related business; namely, the acquisition of 20% equity interest in China Gloria Consultants (Shanghai) Limited ("CGC (Shanghai)").

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS REVIEW (continued)

### 1. Investment Holding Division (continued)

Whereas it was a term of the share subscription agreement dated 29 May 2006 that the Group shall be granted the option to, but shall not be obliged to, acquire such number of new shares in CGC (Shanghai) so as to possess 50% of the overall equity interest in CGC (Shanghai) for a further consideration of HK$454 million (the "Option"), subsequently, on 21 July 2006, the parties agreed to restructure the Option such that CGC (Shanghai) will be used solely as an entity relating to China Gloria Investment & Management Co., Ltd.'s ("CGIM") Shanghai operations, and for the Option to be exercised via newly created entities in respect of each of CGIM's operations in Heilongjiang, Chongqing, Haikou, and its online lottery operations. Accordingly, the former China Gloria Consultants Limited has been renamed "China Gloria Consultants (Shanghai) Limited".

In January 2007, having re-assessed the scale of the investments and the unexpected prolonged fund raising process, CGIM and each of the relevant parties mutually agreed to suspend their cooperation in Chongqing, Haikou, Heilongjiang and the online business respectively. The Group had monitored the progress of the matter, and having reconsidered the prospects and its strategy, the Group came to a consensus with CGIM and was of the opinion that it would be in its best interests to focus resources on the investment in CGC (Shanghai) in the meantime, where more progress had been made in the roll-out of venues relative to the other regions.

The Group, through its 20% equity interest in CGC (Shanghai), incurred a HK$50,950,000 loss for the year under review, reflecting an amortisation and impairment charge in respect of its holding right to earn consultancy and service fee income. This impairment has been made pursuant to a re-assessment by the Directors of the future prospects of the Shanghai lottery market, and taking into account the current and projected delays in rolling out lottery services in Shanghai, particularly in respect of the deployment of Video Lottery Terminals and Keno.

Other than the developments with respect to the Group's China welfare lottery business, 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 MDC in accordance with sale terms and subject to agreement among the shareholders of the investee.

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS REVIEW (continued)

### 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, and the financial services group under SBI E2-Capital Limited ("SBI E2").

The Financial Services Division contributed approximately 42% of the Company's consolidated turnover. It recorded a turnover of HK$59,172,000 (2005: HK$29,064,000) and an operating profit of HK$15,031,000 for the year ended 31 December 2006 (2005: operating loss of HK$10,114,000).

#### Financial Services Group

*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 rates. 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 continues to be recognized as a premium brand name amongst the financial services industry as SBI E2 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 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.

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.

# MANAGEMENT DISCUSSION & ANALYSIS

## BUSINESS REVIEW (continued)

### 2. Financial Services Division (continued)

*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 Securities"), a subsidiary of our financial services joint venture, registered an impressive revenue of SGD4.1 million as compared to SGD73,000 in 2005. SECA Securities participated in two of the best performing IPOs on the Singapore Exchange in 2006 namely, China Fishery Group and Sino-Environmental Technology Group. SECA Securities 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 Securities will continue to play a vital role in the 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.

### 3. Media, Consulting, Marketing and Technology Services Division

The Division contributed approximately 2% of the Company's consolidated turnover. Its turnover was HK$2,760,000 (2005: HK$20,089,000) and the operating profit was HK$908,000 for the year ended 31 December 2006 (2005: HK$1,475,000). The decrease in turnover was mainly due to the deconsolidation of Sun-Tech International Group Limited following the completion of the restructuring of its corporate structure in March 2006. In addition, the Group partially disposed 1,666 shares in iMediaHouse Asia Limited ("IMHA") to the other venturer on 15 July 2005. Following the disposal, the Group reclassified IMHA as an associated company. Prior to 15 July 2005, IMHA was a jointly controlled entity of the Company and its results had been proportionately consolidated. Within the Division, share of losses of associated companies amounted to HK$3,676,000 for the year ended 31 December 2006 as compared to HK$33,662,000 for the same period in 2005, reflecting the absence of a one-off goodwill impairment of HK$27,842,000 which had been made in 2005.

# MANAGEMENT DISCUSSION & 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 46% of the Company's consolidated turnover. For the year ended 31 December 2006, it recorded a turnover of HK$64,209,000 (2005: HK$53,679,000) and an operating profit of HK$1,430,000 (2005: HK$1,206,000). Despite the tight competition, the Division was able to maintain a steady contribution to the Group.

### 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$7,933,000 (2005: HK$7,086,000) and an operating profit of HK$5,347,000 (2005: HK$3,230,000) was recorded for the year ended 31 December 2006. The operating profit included a gain of HK$5,460,000 (2005: HK$3,580,000) on revaluation of investment properties.

## PROSPECTS

On the back of the reviving local economy and the sustained growth of the PRC market and as a result of the fine-tuning of its investment strategy in building upon existing areas of strength while at the same time forging new frontiers both geographically and in terms of its investment strategy, the Group has seen a slow, but sure improvement in its prospects and is confident that, while the true potential and benefits to be gained have yet to be felt immediately, this new direction and strategy will bear fruit.

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.

Over the past year, the Directors and the management of the Group have continued to demonstrate diligence, enthusiasm and unflagging vitality towards building upon the Group's existing areas of strength while at the same time forging new frontiers both geographically and in terms of its investment opportunities. With the resurgence in market sentiment, the Group has seized the opportunity to divest its interest in a series of companies while marginally shifting its focus to its overseas interests, including its activities in Malaysia and the PRC, establishing what the Group considers to be the foundation for future growth.

# MANAGEMENT DISCUSSION & ANALYSIS

## PROSPECTS (continued)

As the Group's investment in the Shanghai lottery business is now facing delays and uncertainties over its growth prospects, the Group is also actively seeking out new investment opportunities while maintaining a prudent approach towards its entire operations, adopting stringent and rational measures to continue reducing costs, streamlining processes and enhancing efficiency. On 10 April 2007, the Company entered into a non-legally binding memorandum of understanding with an independent third party in relation to the possible acquisition of the entire issued share capital of a target company which is principally engaged in the management and operation of a network of medical centres specialising in the diagnosis and treatment of tumour/cancer in a number of major PRC cities, including Shanghai and Beijing.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Company's consolidated bank and cash balances totalled HK$96,838,000 (2005: HK$83,133,000). Of the consolidated bank and cash balances, HK$63,303,000 is attributable to the jointly controlled entities (2005: HK$35,726,000).

On 28 August 2002, the Company, through its wholly-owned subsidiary, SIIS Treasury Limited, issued 5% guaranteed convertible notes due 2005 (the "2005 Notes"). 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 (the "2008 Notes"). Save as the extension of the maturity date, all other terms and conditions remain unchanged. There was no conversion of the 2008 Notes during the year ended 31 December 2006.

On 2 February 2004 and 13 February 2004, the Company, also through 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. As at 31 December 2005, the outstanding principal amounts of the 2006 Notes were HK$15,000,000. On 2 February 2006, the Group entered into a new subscription agreement with a noteholder under which the Group agreed to the issuance of HK$14,000,000 6% guaranteed new convertible notes due in February 2009 (the "2009 Notes") to replace 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. There was no conversion of the 2006 Notes and 2009 Notes during the year ended 31 December 2006.

In March 2006, the Company issued 150,000,000 new shares at HK$0.1 per share as consideration for the acquisition of 10% equity interest in CGC (Shanghai). Subsequently in May 2006, the Company has successfully placed 500,000,000 new shares at HK$0.1 per share and raised net proceeds of approximately HK$49,155,000. Of which, HK$46,000,000 have been used to acquire an additional 10% equity interest in CGC (Shanghai), and the remaining balance of approximately HK$3,155,000 has been retained as general working capital.

# MANAGEMENT DISCUSSION & ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES (continued)

Subsequently, in March 2007, the Group entered into a placing agreement with its jointly controlled entity, SBI E2-Capital Securities Limited, for the issuance of convertible notes due March 2009 for an aggregate principal amount of HK$89,500,000. Completion took place on 23 March 2007 and the amount of net proceeds from the issuance of the convertible notes was approximately HK$85,912,000.

As at 31 December 2006, the Company's total outstanding consolidated borrowings (excluding the above mentioned convertible notes) amounted to HK$72,614,000 (2005: HK$72,897,000). The total borrowings will be repayable, as to approximately HK$3,984,000 within one year and the remainder of approximately HK$68,630,000 between two to five years. Included in the total borrowings are amounts denominated in Japanese yen and Renminbi which were equivalent to HK$68,630,000 and HK$3,984,000 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$421,000 exchange gain on translation for the year ended 31 December 2006 (2005: HK$10,510,000).

As at 31 December 2006, the consolidated equity totalled HK$249,354,000, and the gearing ratio was 29% (2005: 33%), calculated by dividing the total borrowings, excluding convertible notes, of HK$72,614,000 (2005: HK$72,897,000) by the consolidated equity of HK$249,354,000 (2005: HK$221,148,000).

## CHARGES ON GROUP ASSETS

As at 31 December 2006, the Group's banking facilities were secured by properties of the Group with net book value of HK$5,433,000 (2005: HK$5,363,000).

## CONTINGENT LIABILITIES

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

# MANAGEMENT DISCUSSION & ANALYSIS

## COMMUNITY RELATIONS

The Group and its jointly controlled entities continued to actively participate in community service in 2006. SECA Securities 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, Dress Special Day and The Victoria Prison Decommissioning Ceremony. 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. To this we add our wider responsibility to be a good corporate citizen; one which takes pride in making contributions to community programmes in which we can add value.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the total number of employees of the Group was approximately 710 (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, 18 April 2007