MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded a turnover of HK$419,450,000 for the year and reported an after-tax loss of HK$197,696,000 with the diminution in value of short term investments being a dominant reason for the reported loss. The adverse trading environment in the audiotext market has led to a further deterioration in the results of the telecom business.

TELECOMMUNICATIONS INCLUDING INTERNATIONAL PREMIUM RATE SERVICES ("IPRS")

The business environment for IPRS has changed significantly. In particular, this has been on two fronts: (1) the pattern of behaviour from the major international telecommunications companies ("telcos") in making payments under the cascade system (2) a continuous reduction in settlement rates for international traffic routes. The payment cycle from originating and transit telcos is getting longer and longer, which places an extra burden on the Group since it essentially provides a factoring service to the Information Providers who generate the traffic flow. The settlement rates for many major international routes have been dramatically cut and sometimes such reductions have been imposed unilaterally by the originating telcos and on a retrospective basis. However, regardless of the manner in which such reductions have been imposed, mandatory policy guidelines imposed by the Federal Communications Commission with respect to international settlement rates are such that the IPRS business, as it has traditionally been based upon the "cascade accounting model", is effectively no longer viable for USA originated traffic. Reductions in international settlement rates have also been increasingly prevalent in both Europe and Asia, and particularly for traffic originating from UK and Japan.

As a result of the above trends, not only has traffic volume as well as the revenue associated therewith been substantially reduced, but cash flow has also been slower. Management has streamlined operations during the year to provide a smaller but efficient team to carry the business in new and more viable directions. Individually the Group has been strong in the voice format segment. As the market is changing towards data format, the Group made an investment in an established operator which has operations in US and Japan, two of the strongest markets. At the same time, Management has also put a great deal of effort into seeking to have major payments released to the Group, currently "stockpiled" by telcos both for the reasons given above and aggravated further by the announcement in the last quarter of 2001 of the dissolution of Concert (previously formed from the merger of AT&T's and British Telecom's international business). While a degree of success has been forthcoming by aggressively engaging the major telcos involved, Management will continue to exercise effort in this regard.

The Group has invested in the Short Message Service ("SMS") business under its own brand name "SMSinasia" which operates in Hong Kong and Singapore to offer SMS services to customers via "900" numbers (with connections provided by PCCW and Singtel) and mobile phones (with connections provided by SUNDAY, SmarTone, PEOPLES, CSL, Orange and New World Mobility) to access games, logo and message downloads. Agreements have been reached with several content providers (in Hong Kong SAR, China, Singapore and Australia). In many ways, this represents an extension of the Group's traditional core business, given that revenue is generated via telephone calls, with revenue sharing with the originating carriers.

INTERNET AND DIGITAL TECHNOLOGIES

Year 2001, as with (particularly the latter half of) the previous year, continued to be a very difficult year for technology investments and companies worldwide. Consequently, Management continued with the prudent decision initiated in 2001 to safeguard shareholders' assets and reduce exposure to possible continuing risks. As a result, options to further invest in several USA-based companies in the Group's portfolio of technology investments were not pursued and with a matching decision to withdraw from indigenous operations in the technology field. This development included shedding of some staff and refocusing of others to support core telecommunications business (including SMS referenced above) as well as being able to reduce the requirement for such extensive office space, with the Group moving into new premises in mid-year.

NEW INVESTMENTS

As referenced above, in the face of an uncertain market, Management pursued a very conservative investment strategy during the year. However, investment opportunities that could provide synergy with the Group's trading expertise in Hong Kong SAR and China were attributed special attention:

On 12 November 2001, for a consideration of US$1,000,000, a commitment was signed for the purchase of 666,667 Series B Convertible Preference Shares of ChinaPay.com Holdings Limited ("ChinaPay") representing a holding of approximately 7% of the enlarged share capital of the investee company. ChinaPay was established with the aim of building a unified national bank payment system in cooperation with other strategic partners in China. A sum equivalent to the purchase consideration has been deposited in an escrow account and eventual payment will be subject to satisfactory completion of the due diligence exercise and other closing conditions.

An approximately 9% shareholding was acquired in Cardima, Inc. ("Cardima"), a company based in Fremont, California and listed on the U.S. Nasdaq Stock Exchange. Cardima is developing an innovative microcatheter for the treatment of atrial fibrillation (irregular heartbeat), which afflicts an estimated 4.5 million population worldwide. Cardima has completed its Phase II trial under the U.S.A. Food and Drug Administration regulations. Phase III trial is currently underway and has shown promising results. Cardima is seeking to obtain U.S.A. approval for the device before the end of 2002.

Other than this investment in the U.S.A., Management is also proactively looking at investment opportunities in the medical and healthcare industries in the Greater China Region and Management is looking forward to significant progress in this area in 2002.

A 10% shareholding was also acquired in Lesen Technologies Ltd. ("Lesen"), a British Virgin Islands registered company with its operating headquarters based in Macau. Lesen is engaged in the anti-forgery technology business and has obtained the sole marketing and distribution rights for all the key Asian countries (with the exclusion of Japan, Taiwan, Thailand and Vietnam) to a unique and state-of-the-art anti-forgery technology, originally developed in Japan. The technology has wide applications and can be used in identity cards, passports, credit cards, legal tender, trademarks, etc. Lesen will initially focus on markets within China, where it believes strong demand exists for its technology.

NEW INVESTMENTS (CONTINUED)

During the year, the Group committed to invest in 20% of the enlarged share capital of Beijing Smartdot Technologies Ltd. ("Smartdot"), a company based in China. Smartdot is engaged in software development and solution projects, with its primary focus being in the area of Office Automation. Smartdot was founded in 1998 by a group of graduate students from Tsinghua University which is also a minority shareholder and provider of technology support, and has a strong client base in the government and state-owned corporate sector. Smartdot started to produce earnings in 1999 and has since enjoyed excellent revenue and profit growth. It is anticipated that in 2002 Smartdot will also show strong performance targeting an IPO either in its domestic market or overseas for 2003/04.

CLUB OPERATIONS

Despite the downturn of the Hong Kong economy and reduction in the level of spending by members and guests, the Hong Kong Hilltop Country Club has striven to stay competitive while continuing to provide quality services and as a result achieved stable performance in its business activities.

In the face of a continuing sluggish outlook for the Hong Kong economy in 2002, new marketing and promotion programmes to stimulate spending by members in the restaurants will be introduced from time to time together with event marketing programmes on major festivals and celebrations (such as food festival, Valentine's Day and Mid-Autumn Festival). With these and other promotional activities, the Club's management will seek to build a closer community with members to encourage more participation in Club events and to continue to build membership. Measures to improve the Club infrastructure in the areas of water, electrical, ventilation and safety systems have also been introduced to enhance the comfort and safety of its members.

The operating results for the Shanghai Hilltop Club have not been up to the expectations envisaged at its opening in 1999. This stems from two main reasons: the location of the Club and the restricted opening of its facilities. Being located at Putuo, which used to be a light industrial and mixed residential district, imposed constraints on development. However, this district is currently under development towards becoming more of a middle class residential neighbourhood and is likely to see significant investment from government to improve the surrounding environment and transportation services. The prospect of becoming a major recreational and sports centre for the rejuvenated locality bodes well for the Club's future. However, in the short-term the Club will continue to face difficulties in improving revenue, exacerbated by being only partially open. Since the beginning of 2002, various measures have been taken to strengthen the management and improve the operations of the Club, including changes in key employees, launching new promotional programmes (including targeting convention customers, as well as individual members), and the merging of various departments to reduce cost, achieve higher efficiency and better serve customer needs. Strategic marketing partnerships with transport services, travel agencies, and "event companies" (e.g. wedding services company) have also been developed.

SECURITIES

During the year, the Group recorded dividend income of HK$6,656,000 (2000:HK$8,658,000) and net realised and unrealised loss on investments in securities of HK$174,797,000 (2000: HK$108,177,000).

LIQUIDITY AND FINANCIAL POSITION

Irrespective of the adverse trading environment, the Group maintained a position of financial stability underpinned by a cash holding of HK$657,272,000. As at 31 December 2001, the Group's total borrowing stood at HK$69,853,000 (2000:HK$242,713,000) with HK$63,303,000 repayment falling due within one year. The Group's gearing ratio, resulting from a comparison of the Group's total borrowing with total equity, was 6.8% (2000:19.7%). The current ratio at 31 December 2001 was 5.7 times (2000:3.2 times).

As at 31 December 2001, the Group's borrowing and bank balances were primarily denominated in Hong Kong dollars and United States dollars and exchange differences were reflected in the financial statements. All remaining convertible bonds were redeemed in the second half of the year and other remaining borrowings of the Group are either interest free or on a floating rate basis.

In the reporting year, the Group did not resort to acquiring any financial instruments for hedging purposes.

PLEDGE OF ASSETS

Particulars of the pledge of assets of the Group and the Company are set out in note 19 on the financial statements.

EMPLOYEE AND REMUNERATION POLICIES

As of the date of this report, the Group employs a total of 246 full time staff with its main workforce stationed in the Group's offices in Hong Kong. The Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, external training support, and a performance based share option scheme.