

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The operating environment of the US hospitality industry for the first half continues to be very challenging. The level of corporate travel remained depressed due to ongoing cost control measures by US companies. Consequently, the Group's revenues, which are aligned to business volume and revenue stream of our hotel customers, have declined by approximately 25% compared to the same period last year. Another contributing factor was the fall in interest income pursuant to a sharp decline in interest rates globally.

In view of the challenging economic conditions, the Group undertook rationalisation measures previously announced early this year. These measures have enabled its 85% owned subsidiary SWAN Holdings Limited ("SWAN") to substantially reduce its operating cost base.

Since the rationalisation, the Group has focussed its business development efforts on growing the hotel management (Richfield) and reservations distribution (Sceptre) businesses. Consequently, Richfield and Sceptre have managed to secure several new contracts for the first six months of the year.

Financial Commentary

Group Performance

City e-Solutions Limited Group ("ces Group") recorded a net profit attributable to its shareholders of HK\$3.0 million, as compared to a net loss of HK\$26.5 million in the previous corresponding period.

A one-off restructuring charge of HK\$15.6 million was incurred by ces Group's subsidiary, SWAN Group, for the period under review. At the operating level, before accounting for this one-off charge of HK\$15.6 million, SWAN Group reported a smaller loss of HK\$3.9 million, as compared to a loss of HK\$4.6 million incurred in the previous corresponding period. On the other hand, the Company recorded an exchange gain of HK\$17.1 million as compared to an exchange loss of HK\$27.7 million in the previous corresponding period. This arose mainly from the translation of foreign currency bank deposits denominated in Sterling Pound which were received in the year 1999 from the disposal of its interests in subsidiaries and dividends.

Financial Position, Cash Flow and Borrowings

As at 30 June 2002, the Group's gross assets stood at HK\$602.9 million, marginally up from HK\$602.1 million as at 31 December 2001.

For the period under review, net cash outflow from operating and investing activities amounted to HK\$30.7 million. However, with the favourable foreign exchange effects amounting to HK\$12.4 million arising from the translation of the Group's cash held in foreign currencies other than Hong Kong Dollars, the Group reported a cash and cash equivalents of HK\$483.6 million as at 30 June 2002 from HK\$501.9 million as at 31 December 2001.

The Group has no borrowings for the financial period ended 30 June 2002.

Treasury Activities

The Group's major foreign currency exposure is predominantly in Sterling Pound and United States dollar deposits. The Sterling Pound was received previously from the disposal of its interest in subsidiaries and dividends. With respect to the United States dollar deposits, as long as the Hong Kong dollar trades within the existing United States dollar peg arrangement, currency risk will be minimal. The Group takes a medium to long term view on the Sterling Pound and Hong Kong dollars exchange rate risk and will take appropriate actions, when necessary, to reduce its foreign exchange exposure.

Employees

For the period under review, the Group has an average of 66 employees with a total payroll costs of HK\$21.4 million as compared to an average of 70 employees for the previous corresponding period with a total payroll costs of HK\$23.6 million.

As at 30 June 2002, the Group had 56 employees and the Group expects reduced payroll related costs in the 2nd half of the year 2002.

Prospects

While the current economic environment is dictating longer sales cycles, we continue to work on many potential contracts and are optimistic that some of these contracts will be converted into multi-year contracts during the second half of the year to strengthen our revenue base for 2003 and beyond.

The inclination is still very much a cautious one towards new investment, as well as managing the business in a prudent fashion in the midst of economic uncertainty. The Group remains in a financially strong position, well-equipped to capitalise on future investment opportunities.