

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

The Group recorded turnover of HK\$73,011,000 for the first half of the year and reported an after-tax loss of HK\$50,888,000.

Historically, the Group has two core businesses: 1) Telecommunications business - International Premium Rate Services (“IPRS”); 2) Recreational Clubs. Both are affected by the negative market environment. Management’s initiative to IPRS is to consolidate the operation but remain firmly committed to the business. While the operation is smaller, all the essential functions are intact so that we would be well positioned to take advantage of market revival.

Management’s response to club business is to adapt to changes. The Shanghai Hilltop Country Club is located in the Putuo District and the infrastructure in the area is now gradually improving. Tsuen Wan District where the Hong Kong Hilltop Country Club is located is changing from an industrial to a residential neighbourhood. We are expanding the facilities of the club premises so that it would appeal to a wider customer base.

Our new business focus is on information technology and bio-medical. The current volatile market condition should ultimately provide good investment opportunities. While management has made no new direct investment in the reporting period but will continue to review proposals and evaluate investment opportunities.

Telecommunications including International Premium Rate Services (“IPRS”)

The difficult trading conditions reported in the 2001 Annual Report continued throughout the reporting period. Telecommunications worldwide reported a continued slump, highlighted further in the USA by the problems encountered by operators of “900” services and the events surrounding the share price collapse and bankruptcies of major US listed telecommunications companies. The ramifications following the dissolution of “Concert” in the last quarter of 2001 and the separation and re-establishment of the international traffic services to possibly be resumed by its constituent parts (British Telecom and AT&T) have also fuelled uncertainty and made the planning of new international traffic flows difficult. Acquisitions of key South Pacific telecommunications companies by major carriers in the regions such as Singtel and Telstra have also to some degree, added a further complication to business relationships.

Within this business environment, management has undertaken further major actions to contain costs, particularly in relation to reducing infrastructure (installed telecommunication switch installations; leased lines; operators; and maintenance arrangements; etc) supporting non-profitable or marginally viable traffic routes and services. Efforts have also continued unabated to collect outstanding and overdue payments from final transit carriers and to hasten traffic declarations from originating and/or intermediate telecommunications companies.

Telecommunications including International Premium Rate Services (“IPRS”) (continued)

In line with focusing on a smaller number of higher volume originating markets, management has also been involved and, devoted significant time to seeking to consolidate its relationships with a key group of termination points.

Modest but reasonable progress was also made in the development of Short Message Services (“SMS”) business division. SMSinasia is a content aggregator for text-based SMS games / info services, IVRS games / info services, and download services such as operator logos, picture messages and blinking messages. Content providers around the world are putting their contents in our platforms to be marketed and / or distributed in Hong Kong and Singapore. Management is currently looking into setting up similar platforms in Taiwan and China, offering existing contents.

Club Operations

Although Shanghai Hilltop Country Club is located in the Putuo District, which is at the fringe of downtown Shanghai with a lower-middle class neighbourhood, its overall performance has been improving gradually after management implemented a series of cost reduction and sales promotion programmes. With gradual infrastructural improvement in the neighbourhood such as new roads and extension of the urban subway, the traveling time between the club and downtown Shanghai will be shortened. The future demand on leisure facilities in the area is expected to increase eventually.

In Hong Kong, quality services and new marketing programmes have allowed Hong Kong Hilltop Country Club to maintain a stable performance in the reporting period. As Tsuen Wan is gradually being transformed from an industrial to a residential neighbourhood, the quality of life in the neighbourhood is anticipated to improve together with the future demand of clubhouse facilities. Furthermore, with the completion of West Railway development, it would definitely bring more traffic to Tsuen Wan and provide further opportunities for the club to expand its customer base.

In response to the changing business and demographic environment of both clubs, management is initiating plans to ensure our club premises appeal to new and wider customer base. Management is aiming to transform the traditional recreational country clubs into modern and diversified leisure facilities with plans to introduce spa and health and beauty treatment services.

Other Investments

The first half of 2002 was characterized by worldwide negative sentiment and the risk of global recession. The major equity markets in the world all experienced significant fall in capitalization values. In the reporting period, management adopted a conservative strategy and did not make any new investments, other than completing its commitment made in 2001 in acquiring 20% of the enlarged share capital of Beijing Smartdot Technologies Ltd. The investment in ChinaPay.com Holdings Limited, which was established with the aim of building a unified national bank payment system in cooperation with other strategic partners in the PRC, is in progress and on schedule to complete in the second half of the year. The current investment portfolio of the Group, which now mainly comprises companies in the medical and information technology business, in general, has performed satisfactorily in the reporting period. Under the prevailing environment, management believes that it is of critical importance to preserve the Group’s cash holding and shall continue the pursuit for investment opportunities in information technology and bio-medical in the Greater China Region.

CAPITAL REORGANISATION SCHEME

A capital reorganisation scheme was approved by the shareholders at an Extraordinary General Meeting on 11 July 2002 and later confirmed by the sanction of a Court Order dated 6 August 2002. Under the capital reorganisation scheme, the Company reduced the nominal value of all its shares from HK\$0.50 to HK\$0.01 per share resulting in a reduction of the authorised and issued share capital to HK\$20,000,000 and HK\$16,507,000 respectively. Furthermore, the authorised share capital of the Company was immediately restored to the original amount of HK\$1,000,000,000 by the creation of an additional 98,000,000,000 ordinary shares of HK\$0.01 each. A Special Capital Reserve has been created and credited with HK\$808,823,000 arising from the reduction of the issued share capital.

The capital reorganisation scheme is in place to facilitate the future issue of shares as and when required.

LIQUIDITY AND FINANCIAL POSITION

The Group continues to maintain a position of financial stability underpinned by a cash holding of HK\$642,266,000. As at 30 June 2002, the Group's total borrowings stand at HK\$67,352,000 (31 December 2001: HK\$69,853,000) with HK\$58,542,000 repayment falling due within one year. The Group's gearing ratio, resulting from a comparison of the Group's total borrowings with total equity, was 6.9% at the interim period end date (31 December 2001: 6.8%). The current ratio at 30 June 2002 was 4.7 times (31 December 2001: 5.7 times).

As at 30 June 2002, the Group's borrowings and bank balances were primarily denominated in Hong Kong dollars and United States dollars and exchange differences were reflected in the interim financial report. All remaining borrowings of the Group are either interest free or on a floating rate basis.

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

PLEDGE OF ASSETS

Pledge of the Group's fixed deposits of US\$6,110,000 (31 December 2001: US\$6,110,000) and corporate guarantees were given to bankers to secure short term loans, bank overdrafts and factoring facilities to the extent of US\$11,600,000 as at 30 June 2002 (31 December 2001: US\$11,600,000).

EMPLOYEE AND REMUNERATION POLICIES

At the date of this report, the Group employs a total of 240 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.