

FINANCIAL REVIEW

Group Performance

City e-Solutions Limited Group recorded a net profit attributable to its shareholders of HK\$20.5 million, as compared to a net loss of HK\$35.7 million in the previous year. The improvement in the Group's result was due mainly to lower expenses and exchange gain recognized during the year under review .

The Group recorded a lower turnover of HK\$77.8 million, down 20.8%, from HK\$98.2 million in the previous year. The operating environment of the US hospitality industry, where its subsidiary, SWAN Holdings Limited Group ("SWAN") operates, continues to be very challenging. Since the rationalization, SWAN has focused its business development efforts on growing the hotel management and reservations distribution businesses and had scaled down the risk management services during the year under review.

Consequently, the lower turnover can be attributed to a lower revenue contribution from its risk management services which decreased by 66.5% to HK\$6.7 million from HK\$20.0 million in the previous year. Reservation revenue which is aligned to business volume and revenue stream of the hotel customers, have declined by 8.1% to HK\$27.1 million from HK\$29.5 million. However, higher revenue from hotel management contracts were recorded, up 28.5% to HK\$21.2 million from HK\$16.5 million in the previous year due to additional fees of HK\$7.5 million from the Group's affiliated hotels. Another contributing factor for the lower turnover was the fall in interest income pursuant to a sharp decline in interest rates globally. The Group's interest income was HK\$14.0 million, a decrease of 38.9% from HK\$22.9 million in the previous year.

Included in the Administrative Expenses, was a one-time restructuring charge of HK\$13.5 million incurred by SWAN as the Group undertook several significant cost rationalization and business refocus initiatives in 2002. The cost rationalization completed by the end of June 2002, had enabled SWAN to substantially reduce its operating cost base. Accordingly, total administrative expenses amounted to HK\$70.9 million, down 25.7% from HK\$95.4 million in the previous year.

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At the operating level before interest income and before accounting for the one-off restructuring charge of HK\$13.5 million, SWAN incurred a lower operating loss of HK\$3.7 million for the year under review, as compared to a loss of HK\$26.5 million incurred in the previous year.

Other Net Income comprises principally exchange gain of HK\$29.2 million recognized by the Group for the year under review as compared to exchange loss of HK\$12.8 million recorded in the previous year. 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 interest in subsidiaries and dividends. On the Group's minor investment, no provision for diminution in value was required as at the end of this financial year end while an amount of HK\$4.5 million was provided to restate this investment at fair value as at the end of the previous financial year.

The analyses of the Group's Revenue and Profit/(Loss) from Operations by business and geographical segments are set out in note (6) to the Financial Statements.

Financial Position

As at 31 December 2002, the Group's gross assets stood at HK\$609.6 million, up from HK\$602.1 million as at the end of the last financial year ended 31 December 2001.

The Group reports its results in Hong Kong dollars and it is the objective of the Group to preserve its value in terms of Hong Kong dollars.

Cash Flow and Borrowings

For the year under review, net cash inflow from operating activities amounted to HK\$30.6 million. The Group received interest income of HK\$14.0 million and proceeds of HK\$39.0 million from disposal in investment securities. The main non-operational cash outflow related to purchase of fixed assets of HK\$4.4 million.

The Group's cash and cash equivalents accordingly increased by HK\$27.5 million in the financial year 2002. This increase, together with the favourable exchange translation gain on the foreign currency bank deposits resulted in a cash balance of HK\$553.4 million as at the end of the financial year, up from HK\$501.9 million as at the last financial year-end. Cash and cash equivalents are mainly held in Sterling Pound and United States dollars which form approximately 48% and 50% respectively of the total Cash and cash equivalents as at the financial year-end.

The Group has no borrowings for the year under review.

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 US 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

As at 31 December 2002, the Group had 42 employees, down from 72 as at the end of the last financial year ended 31 December 2001. The total payroll costs for the year 2002 was HK\$33.8 million.