MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded turnover of HK$193,359,000 for the year and reported an after-tax loss of HK$119,435,000. The reported loss represents a 40% decrease when compared with the trading result of 2001 resulting from improvement in unrealised loss on investments and continued cost cutting discipline.

OVERALL SUMMARY

Management has continued in its efforts to improve the operations of the two recreational clubs. The club in Shanghai showed substantial improvement in turnover. After year-long negotiations, joint venture partners have been identified to turn the Shanghai club premises into a spa resort hotel that will position itself to service a more affluent customer base. Turnover of the club in Hong Kong was affected by local market conditions, though its operation remained satisfactory through streamlining of costs.

After an initial investment in Cardima, a medical device company engaged in the research, development and commercialisation of equipment for treatment of a type of irregular heartbeat disease, this bio-medical direction was reinforced through an investment in Genovate, a Taiwan-based pharmaceuticals manufacturer. Management intends to expand bio-medical investment in the Greater China area through its excellent referrals network.

The International Premium Rate Services ("IPRS") business continued to stagnate. This business is recognised for having dramatic cyclical trends. While having ventured into some resurgent areas, the cost base is being continually restructured to achieve scalability in line with market conditions.

Overall, some selective investments have been made over the last two years. However, being cognizant of the high multiples often used in the valuation of high-tech companies, preservation of liquidity has been a primary consideration. This has proven to be a prudent policy. In the coming fiscal year, management will continue its efforts to identify value-added investment opportunities.

RECREATIONAL CLUB

Shanghai

Following a series of cost reduction and sales promotion programmes, the performance of the Shanghai Hilltop Country Club ("Club") has improved with around 60% increase in sales revenue compared to 2001.

In order to cope with the needs and tastes generated by the influx of foreign businessmen as well as the increase in high-end consumers in Shanghai, the final stage has been reached in negotiations with strategic partners to collaborate in turning the Club into a spa resort with a 4-Star hotel complex. These partners include Chinese and Taiwanese parties which have significant experience in managing spas, health clubs and hotels. Such transformation should enable the Club to attract Taiwanese expatriate customers, as well as affluent members of Shanghai's indigenous population and, at the same time, prepare the Club for the coming Shanghai World Expo in 2010.

Hong Kong

Hong Kong's economy was seriously impacted by the global slowdown of 2002. However, despite the unfavourable economic environment, the Hong Kong Hilltop Country Club performed satisfactorily compared to the previous year. While the economic climate is likely to remain unchanged for the first half of 2003, the management objective is to maintain the customer base and increase the usage of club facilities for meetings, seminars, association gatherings, festive programmes, family sports, entertainment, social activities and restaurant & catering services.

BIO-MEDICAL

Cardima Inc ("Cardima")

This California-based medical device company, listed on the US NASDAQ, is developing an innovative micro-catheter for the treatment of atrial fibrillation (irregular heartbeat), which afflicts an estimated 4.5 million individuals worldwide. Cardima has completed its Phase III clinical trial under the US Food and Drug Administration ("US FDA") regulations, the preliminary results of which have demonstrated safety and promising efficacy. On 20 September 2002, Cardima submitted Pre-Market Application ("PMA") to the US FDA and is now awaiting approval.

Under a private placement, a further 694,444 newly issued shares of Cardima were acquired at US$0.72 per share in August 2002. Together with shares previously held, the holding in Cardima was approximately 8% at year end.

BIO-MEDICAL (CONTINUED)

Genovate Biotechnology Company Limited ("Genovate")

Genovate (founded in Taiwan in 1993 by Genelabs Technologies, Inc of the USA) is a fully integrated pharmaceutical company, encompassing in its operations: new drug development and new formulation capability; clinical trials for local and international pharmaceutical companies; drug manufacturing with a plant that meets the US FDA standards for current Good Manufacturing Practice; marketing and distribution network in Taiwan; and cost-competitive custom services such as formulation design, development and manufacture for clients such as BMS, Abbott, Roche and others. In addition, the newly developed drug "Prestara", co-developed by Genelabs Technologies and Genovate for anti-lupus treatment, received an approvable letter from the FDA in August 2002. Subject to a successful confirmation clinical trial, the market launch of the product is expected to be in 2004.

In December 2002, 12 million newly issued ordinary shares of Genovate, representing 14.4% of the enlarged total issued share capital, were subscribed for at a consideration of NT$120 million (approximately HK$26,801,000).

TELECOMMUNICATIONS INCLUDING INTERNATIONAL PREMIUM RATE SERVICES ("IPRS")

The difficult trading conditions reported in the 2001 Annual Report continued throughout the current 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 financial difficulties of major US listed telecommunications companies. Similar problems were faced by many of the major European telecommunications companies. The dissolution of various joint ventures, formation of new joint ventures, consolidation and acquisitions amongst major carriers have, to some degree, added a different dynamic to business relationships.

Nevertheless, there remain pockets of opportunity which the Group is keen to exploit. One example is a collaborative venture entered into with an established operator in the IPRS business. At the time of reporting, it has commenced operation and is generating a satisfactory traffic volume.

Within this business environment, management has undertaken further major actions to contain costs, particularly in relation to significant fixed-overhead reductions in infrastructure (telecommunication switch installations, leased lines, call centres 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.

While generally the Short Message Services ("SMS") business in China has been successful, our SMS operation in Hong Kong market has not taken off as expected. Compared to China, the low in-payment rate of calls and the high cost of SMS transmission charged by local mobile carriers have hindered the growth of the business in Hong Kong. Management has decided to withdraw from the Group's SMS business in Hong Kong and look for SMS business opportunities in China.

OTHER INVESTMENTS

The following summary provides an update on other major investments made or committed to so far:

ChinaPay.com Holdings Limited ("ChinaPay")

ChinaPay is a 49% shareholder of ChinaPay E-Payment Service Company Limited ("ChinaPay E-Payment"), which is China's premier On-line Payments Service Provider. With the support of China UnionPay ("YinLian"), the other 51% shareholder, ChinaPay E-Payment was established with the goal of building a unified, national payment system for China. The system allows for payments to be made instantaneously from and to any bank anywhere in the country. It provides payment and money transfer services for consumers and business, as well as between consumers and merchants in a convenient, safe, and fast manner. ChinaPay E-Payment's offerings fill a market void left open by inadequate traditional payment options.

By the summer of 2000, ChinaPay E-Payment's predecessor has begun providing payment services in the Shanghai region in conjunction with Shanghai's SNET Golden Card Network that was established by the Shanghai branch of the People's Bank of China and the local branches of China's 14 banks with the goal of facilitating ATM & POS inter-operability and transaction clearing between all participant banks. In future, ChinaPay E-Payment will broaden its revenue and customer base by focusing on two main developments: the expansion of its coverage to all major cities and the addition of new applications to its offerings targeted at different customer segments such as payment through mobile phone and telephone.

A Purchase Agreement was signed to acquire 666,667 Series B Convertible Preference Shares for the amount of US$1,000,000, representing 7% of total shares issued by ChinaPay. US$1,000,000 was deposited in an escrow account, the completion of the purchase is subject to a satisfactory due diligence investigation and other closing conditions. The due diligence exercise is being conducted through the end of the current reporting period, with the completion date for closing rescheduled to the first half of 2003.

OTHER INVESTMENTS (CONTINUED)

Beijing Smartdot Technologies Company Limited ("Smartdot")

Despite a highly competitive environment in the software development market in the PRC, Smartdot managed to generate revenue growth of around 35% in 2002. It is expected that in 2003, Smartdot will see solid expansion due to the strong demand in e-government projects, office automation systems for the corporate sector, and intranet systems for schools, in the PRC.

Wireless Telecommunication Project

A wholly-owned subsidiary has entered into an acquisition agreement with a company in Shanghai ("the Seller"), whereby the Seller's wireless telecommunication business in the PRC will be purchased and injected into a wholly foreign owned enterprise to be established in Shanghai. The total acquisition consideration is (a) RMB800,000 of which RMB200,000 was deposited with the Seller in February 2003; and (b) 25% of the shares of the subsidiary up to US$150,000. Payment of the balance is subject to fulfillment of the closing conditions under the terms of the agreement.

Lesen Technologies Limited ("Lesen")

In 2001, a 10% shareholding was acquired by the Group in Lesen, an anti-forgery business based on technology invented in Japan. Due to a dispute among shareholders, the operations of Lesen did not progress as projected in 2002. Legal advice has been retained to examine the position, but as a prudent policy it was decided to fully provide for the HK$30,000,000 investment. Efforts will be continued to revitalise the project.

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$808,822,000 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

Prudent treasury policies continued to safeguard the Group's cash resources and with a cash and deposit holding of HK$621,112,000, the Group maintained financial stability. As at 31 December 2002, the Group's total borrowing stood at HK$63,651,000 (2001: HK$69,853,000) with HK$56,427,000 (2001: 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 6.7% (2001: 6.8%). The current ratio at 31 December 2002 was 5.4 times (2001: 5.7 times).

As at 31 December 2002, 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 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 pledges 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 224 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 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.