MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group reported a turnover of HK$138,600,000 (2002: HK$193,359,000) and consolidated loss attributable to shareholders amounted to HK$34,069,000 (2002: HK$119,435,000) for the year ended 31 December 2003. The reported loss represented a 71% decrease as compared with that of the previous year. Basic and diluted loss per share was 2.1 HK cents (2002: 7.2 HK cents).

BUSINESS REVIEW

PREMIUM FASHION — THE SWANK SHOP LIMITED (“SWANK”)

In 2003, the Group became a strategic partner (60%) of Swank. Swank is one of the most prestigious and recognised names in premium fashion retailing to selected loyal customers through a chain of boutiques and counters in major high-end department stores in Hong Kong.

Swank has over 48 years of experience in operating premium retail shops in Hong Kong and the name Swank has become synonymous with luxury and style when it comes to fashion. Currently, Swank carries some of the most sought after brands from Europe and across the world through distribution arrangements, joint ventures and management agreements. Management believes that such valuable experience and assets will take Swank into an even stronger position for future expansion in Hong Kong and the PRC. Currently, management is undertaking studies to pursue retailing venues in the near future in various major cities in the PRC including Beijing, Shanghai and others.

The Group immediately benefited from the positive performance of Swank. Going ahead, the Group believes Swank will enter into a new era with the rebound in consumer confidence in Hong Kong and the influx of Chinese tourists through the Individual Visit Scheme.

CLUB MANAGEMENT

Shanghai

During the first half of 2003, the Club experienced a significant drop in sales, largely due to the outbreak of Severe Acute Respiratory Syndrome (“SARS”). Cost-reduction programs were immediately implemented in response. Business started to recover steadily from July with occupancy rate rebounding to 80% by the end of August. Such rebound in occupancy rate has continued since.

Since July, the Club has co-operated with Shanghai Landis Hospitality Management Co. Ltd. (“SLHM”), a hotel management company based in Shanghai in which the Group has a 20% interest, to convert the Club into a Spa and 4-Star Hotel. The Club was temporarily closed in December for major renovations, with the expectation from SLHM that work will be completed by the end of 2004. The Club is forecast to contribute to the Group’s profit within one year after re-opening.

CLUB MANAGEMENT (CONTINUED)

Hong Kong

The impact of SARS reduced member patronage to less than half its normal level during March and April to such an extent that the Western Restaurant's evening service was suspended. Normal business momentum gradually returned during the latter part of the year. A variety of sales promotion and marketing activities were introduced to boost trading in the intensely competitive environment brought about by reduced demand. Such measures, together with stringent cost controls and an improvement in the number of visitors to Hong Kong later in the year contributed to a reasonably satisfactory result by the year-end.

BIO-MEDICAL

Cardima Inc. ("Cardima")

Listed on NASDAQ and based in California, Cardima is developing an innovative micro-catheter, Revelation Tx microcatheter system, for treatment of atrial fibrillation (irregular heartbeat) which affects an estimated 4.5 million individuals worldwide.

In a meeting in May 2003, the US Food and Drug Administration's ("US FDA") Circulatory System Device Panel provided Cardima and the US FDA with several suggestions on how to re-examine existing data and on the collection of additional data on existing patients, allowing a Pre-Market Approval application to be re-compiled and re-submitted in January 2004, which management feels is a very positive development.

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 operation: new drug development and new formulation capability; clinical trials for local and international pharmaceutical companies; drug manufacturing; drug marketing and distribution in Taiwan.

Genovate has a range of new drug products in the pipeline. The newly developed drug "Prestara", co-developed by Genelabs Technologies and Genovate for treatment of lupus, received an approvable letter from the US FDA in August 2002. Subject to a successful confirmatory clinical trial, the market launch of the product is expected to be some time in 2004. "Genetaxyl" is an improved version of Paclitaxel (BMS' Taxol) developed by Genovate for treatment of breast cancer. The drug received an approval licence in Taiwan in January 2003. In addition, two drug products have completed clinical studies in Taiwan: "Urotrol", a new drug for treatment of urinary incontinence; and "Glusafe", for the treatment of diabetes.

In 2003, Genovate made a strategic investment, becoming one of the founding shareholders of Pharmaessentia Corp. ("PME"). PME, based in Taiwan, was founded by a group of scientists having a recognised capability in drug research and development in the Taiwan pharmaceutical industry. The investment is aimed at providing Genovate with access to a continuum of new drug products for future growth.

TELECOMMUNICATIONS

International Premium Rate Services ("IPRS")

Trading conditions of the telecommunications market worldwide continued to be sluggish in 2003. As a result, traffic volume as well as revenue were further reduced. While the US IPRS market proved to be suffering a longer-term recession than most had originally anticipated, Japan and some major European markets were also dampened by a general trend of tariff reduction, thus affecting profitability on the whole.

To reverse this downward trend, management has taken an active course of action and revamped the existing business model using a more proactive and coordinated approach with its chain of suppliers. Management anticipates that traffic volume, payment rates and payment quality will be improved by securing these new business arrangements. As a result, management believes that improvements in several markets should be forthcoming.

Notwithstanding the current difficult market conditions, the Group maintained some of the investments made in what management believed to be the strategic locations for IPRS service. Given the cyclical nature of the IPRS business, management had reasons to believe a number of these strategic locations will be due for recovery in the short to medium term; and by maintaining our presence, the Group will be leading the market as well as the competition when the situation turns around.

Management is also pleased to report that the Group has continued to maintain excellent relationships with major carriers around the world. While further steps have been taken to fortify the relationships with these long term partners, management is reaching out to the world concentrating on acquiring new carrier partners with an aim to provide our customers with innovative and reliable services.

Despite the extremely difficult circumstances affecting the telecommunications industry in 2004 and in particular the IPRS market, management took significant and effective action to improve business performance, reduce redundant overhead and provide for a more flexible base to respond and adapt more effectively to market changes.

Wireless Network Card Business

Shanghai ENM Telecom & Technology Limited ("SENMTT") commenced operations in July by marketing and distributing GPRS network cards with China Mobile Shanghai. In October, SENMTT expanded its business by cooperating with China Unicom Shanghai for its CDMA1X network cards under the same business model. In 2004, management plans to further expand the business in Shanghai and explore new opportunities in the Guangdong area.

OTHER INVESTMENTS

ChinaPay.com Holdings Limited ("ChinaPay")

ChinaPay's main business is providing B2C electronic payment and intra-bank fund transfer solution services in the PRC through its Joint Venture, ChinaPay e-Payment Service Company Limited ("ChinaPay e-Payment"), with China UnionPay. Although, as projected, ChinaPay e-Payment activities did not contribute to ChinaPay's bottom line in 2003, there was significant improvement in its revenue performance during the year as a result of the introduction of on-line mutual fund investment transaction services. In 2004, ChinaPay e-Payment plans to expand its business to other major cities in the PRC from its hub in Shanghai.

Beijing Smartdot Technologies Co. Ltd. ("Smartdot")

Smartdot's operations were significantly impacted in a number of ways by the outbreak of SARS, and it also faced strong competition in the software development market in the PRC, resulting in a deficit result for 2003. However, during the last quarter of 2003, Smartdot managed to secure a number of contracts/projects and it is expected that its performance will improve in 2004. However, under the Group's conservative policy, management decided to write off the goodwill in this investment, amounting to approximately HK$14.5 million.

LIQUIDITY AND FINANCIAL POSITION

At 31 December 2003, the Group was in a solid financial position with a cash and deposit holdings of HK$635,058,000 (2002: HK$621,112,000). At 31 December 2003, total borrowings stood at HK$61,931,000 (2002: HK$63,651,000) with HK$52,787,000 (2002: HK$56,427,000) repayment falling due within one year. The Group's gearing ratio (a comparison of total borrowings with total equity) was 6.8% at year-end (2002: 6.7%). Current ratio at 31 December 2003 was 4.7 times (2002: 5.4 times).

At 31 December 2003, 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 audited 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 21 on the financial statements.

EMPLOYEE AND REMUNERATION POLICIES

At the date of this report, the Group employs a total of 274 full time staff with its main workforce stationed in the Group's office 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.