

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

For the six months ended 30 September 2000, the group recorded a turnover of approximately \$10,830,000, representing an increase of 41% as compared with the same period in 1999. Loss attributable to shareholders was approximately \$24,990,000, representing an increase of 158% over the loss of \$9,680,000 recorded under the same period last year.

Business review

During the period under review, the group has been committed to innovating and focusing on the development of communications and technology-related businesses. The group has succeeded in entering a number of large-scale development projects, while these projects are currently still in their investment stage, the group is expected to generate results in the coming years. To further strengthen the group's business foundations, the management team will continue to explore various business opportunities to complement and diversify its existing business operations and to make strategic investments. The group is also dedicated to establish strategic alliance or partnerships to strengthen its market position. The group has every confidence that this new business direction will bring in attractive returns as well as consolidate its position as an outstanding information, communications and technology related group.

Fibre-optic networking business

In the review period, the group took a significant step towards expanding the existing coverage of its fibre-optic network from Guangdong Province to a nation-wide basis to other key regions in the People's Republic of China (the "PRC"). In May 2000, the group co-operated with Guangzhou South China Telecommunication Investment Limited to set up two equity joint ventures for the construction of a nation-wide fibre-optic network in the PRC. The group owns a 92% equity interest in these joint ventures. The aggregate cost for the construction is approximately \$500 million.

After the completion of this construction work, the total fibre length of the group's fibre-optic network will stand at approximately 30,000 fibre kilometers. This nation-wide fibre-optic network will cover 9 provinces and connect over 70 major and more prosperous cities in the PRC.

To complement and foster the business growth of the nation-wide fibre-optic network with the expected growth in demand for data transmission in the PRC, the group has built and commenced the operation of data centre in Hong Kong. Two additional data centres in Hong Kong and Guangzhou respectively are under the construction. The group is considering to build two more data centres in Beijing and Shanghai in the near future. These data centres received enthusiastic response from tenants and have already made a revenue contribution to the group. This is particularly prominent for the data centre in Hong Kong which has reached its satisfactory utilization level shortly after its launch. Responding to increasing demand, the group intends to expand the operation scale of its data centres. More significantly, the group views its success as becoming a leading provider of communications infrastructure in the PRC.

Technology related business

To complement the development of its fibre-optic network business, the group has successfully made several alliances with prestigious technology partners. In April 2000, through the formation of a strategic partnership with Glenayre Electronics, Inc, a global leader in personal telecommunications products and message technology, headquartered in the US, the group has been involved in the joint development of Unified Messaging Technology. This strategic alliance formation marks an important step for the group in enhancing its technical know-how and in widening channels for its penetration into the international market.

Prospects

To effectively capture market opportunities in the global world, the group has been positioning herself as a gateway between the PRC and the world, and to be a communications hub of Asia Pacific. In October 2000, the group formed a strategic partnership with iTec World Limited (“iTec World”) to develop communications business.

The iTec World group is principally engaged in the provision of telecommunication services in Hong Kong and the PRC, mainly comprising provision of Voice over Internet protocol (“VoIP”) services and developing value added applications based on the IP network. The group believes that the investment in iTec World which specializes in handling data transmission in Hong Kong and the PRC will complement the operations of its data centres and strong synergies will be generated through their co-operation.

As the PRC succeeds in joining the World Trade Organization, its economy will then increasingly integrate with the global economy and its market will also gradually open up with huge business opportunities for foreign enterprises. With its various investments and co-operations with PRC partners, the group regards this as a golden opportunity to further penetrate the PRC market and develop its communications infrastructure business. With these new and focused business strategies, the group is expected to perform successfully in the latter half of the year.

Appreciation

I would like to take this opportunity to express my appreciation to our shareholders, investors and business partners for their continued support and confidence in the group. I would also like to thank our management team and staff for their dedicated efforts and significant contributions during this period.