

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The satisfactory performance of our business in providing network system integration, business/operation support system, telecom value-added services/solutions, and other application software systems has brought forth an encouraging result to the Group. During the period under review, the Group recorded a turnover of approximately HK\$138 million, representing a substantial increase when comparing to last corresponding period of approximately HK\$0.5 million. The unaudited operating profit was approximately HK\$10 million as compared to the unaudited operating loss of approximately HK\$36 million (excluding the exceptional gain) for the same period in the previous financial year.

On 12 June 2001, the acquisition of 51% interest in Beijing HollyBridge System Integration Company Limited (“HollyBridge”) at a consideration of HK\$16 million was completed. HollyBridge is mainly engaged in the sales, distribution, design as well as technical consultation and maintenance of communication products and systems. It is also involved in the provisions of various application software, business/operational support systems and solutions, and broadband access related products. As evidenced by the results of this period, the acquisition has further strengthened the communication business and enlarged the revenue of the Group. The Group is demonstrating outstanding performance in its business growth, and now the total contract size it has currently won is amounted nearly RMB350 million.

During the period, the Group has allocated marketing and technical resources of approximately HK\$11 million to the development of the broadband access network products for the PRC market. The Board believes that Very High-rate Digital Subscriber Line (“VDSL”) products, one of the broadband access network products, will be a significant profit driver of the Group. Thus, the Group introduces the VDSL products via Telecom Plus Technology (Shenzhen) Limited (“TPT (SZ)”) to match with the demands of the broadband access network products in PRC Internet market which demonstrates significant growth.

On 23 November 2001, the Group has entered into a letter of intent with Shenzhen Venture Capital Co., Ltd. in respect of the proposed subscription of equity interest of TPT (SZ). The proposed subscription funds will be amounted to RMB20 million which will be used to develop the VDSL project currently conducted by TPT (SZ).

Future Prospects

The external environment of the Group is favorable, with high growth of telecom investment and IT market in PRC, PRC accession in WTO and preparation for the 2008 Beijing Olympic Games. With a strong marketing channel and broad customers base covering southern and northern China, our market share in the telecom and IT markets is expected to be enhanced.

The Group's lucrative software business is expected to be a significant driver of profitability in the coming years. The Group has been upgrading its existing software products, such as telecom billing software and network software system to enhance profit margin. In addition, it is developing some new software solution systems that have great market potential, including application software based in broadband network, data analysis/decision making support system. Further, the preferential policies adopted by the PRC Central Government encourage domestic software development and benefit our business. The Group is well positioned to expose itself to full market potentials and the Board foresees that the growth will persist under such favorable business environment.

Coupled with the ambition of becoming one of the leading technology firms in Asia, we shall continue to set the enhancement of shareholders' value as our ultimate goal. In this sense, we shall focus more on profitability, good corporate governance and reduction of risk exposure of the shareholders than simply on size expansion. To achieve such goals, we have been proactively exploring a business model based on the unique economic and legal environment of PRC and Hong Kong and expect to derive steadily growing return for the shareholders in the long run.

EMPLOYMENT AND REMUNERATION POLICIES

The Group employs approximately 400 employees. Total staff costs incurred during the period amounted to approximately HK\$13 million. Remuneration packages are generally structured with reference to market terms and individual merits. Salaries are normally reviewed and bonuses paid on an annual basis based on performance appraisals and other relevant factors. Staff benefit plans maintained by the Group include mandatory provident fund scheme, share option scheme and medical insurance.

The Company operates a share option scheme (the "Scheme") whereby the Board may at its absolute discretion, grants options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the terms of the Scheme.

"Bridging the best people and the best solutions to you" is the spirit of the Group. Our management team comprises of professionals in information technology, telecommunications, capital markets, corporate management and operation. The Group will continue to create opportunities for employee's career and personal growth, especially in the fields of IT industry and investment market.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial period under review, the Company has allotted 160 million new shares with the net proceeds of approximately HK\$29 million for acquisition of HollyBridge and general working capital. In addition, the Group had obtained borrowings amounting to approximately HK\$51 million at fixed interest rate for trade finance purposes. The Group had bank balances of approximately HK\$18 million as at the period end date.

As at 30 September 2001, the Group's current ratio as a ratio of current assets to current liabilities, was 0.972 (31 March 2001: 0.540) and the gearing ratio, as a ratio of total liabilities to total assets, was 0.995 (31 March 2001: 1.762), which showed the substantial improvement in the liquidity position of the Group.

Moreover, regarding the convertible bonds in the principal sum of US\$3.6 million, the Company entered into an agreement with the bondholder in which the maturity date has been extended to June 2003.

After completion of the business and debt restructuring exercise, there is a remarkable improvement in our financial position. As at 30 September 2001, the Group had achieved a net asset value as shown in the balance sheet, as compared to net liabilities for the prior years. Notwithstanding with such achievement, the Board is still pursuing for enhancing the asset base of the Group in order to further improve the gearing and reduce the financial risk exposure of the shareholders.

CURRENCY STRUCTURE

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars, US dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2001.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2001, according to the register of interests required to be kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the following interest of 10% or more in the issued capital of the Company was recorded:

Name	Number of shares interested
Able Technology Limited	176,198,000 <i>Note (i)</i>

Note (i) The entire issued share capital of Able Technology Limited is beneficially owned by Mr. Zou Yishang.

Saved as disclosed above, no person, other than the directors of the Company whose interests are set out below, had registered an interest in the share capital of the Company that was required to be recorded under Section 16 (1) of the SDI Ordinance as at the balance sheet date.

DIRECTORS' INTERESTS IN THE SHARES

As at 30 September 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Interests in Company

Name of director	Nature of interest and number of shares	
	Personal	Corporate
Zou Yishang	–	176,198,000 <i>Note (ii)</i>
Chen Jian	60,000,000	–

Note (ii) These shares are beneficially owned by Able Technology Limited and the interest of Mr. Zou Yishang in Able Technology Limited has been stated in Note (i) above.

Save as disclosed above, and other than the nominee shares in certain subsidiaries of the Company held in trust for the Group, none of the directors, chief executives or their associates had any interest in the securities of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 30 September 2001, the interests of the directors of the Company in options to subscribe shares of the Company under the Scheme were as follows:

Name of director	Number of options held
Zou Yishang	20,000,000
Ma Hongyao	15,000,000
Chen Jian	17,000,000