MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group's launch of a branded wireless data service in the third quarter of 2002 makes it one of the world's first 2.5G focused wireless operators outside the highly developed markets of Japan, Korea and Taiwan. The Group maintains an aggressive and focused effort in establishing its branded GPRS-based wireless data service, and industry analysts support its strong belief in the tremendous potential for wireless data and entertainment business.

Testament to operators using wireless data to boost ARPU and anticipated flourishing consumer demand, global mobile data penetration is expected to rise from 9.2% in 2001 to 45.6% by 2005, or from approximately 81 million to approximately 633 million users in real terms[1].

Asia Pacific continues to lead the world's wireless data industry. HSBC forecasts there will be 4.7 million data subscribers in Hong Kong by 2005, 18.1 million in Taiwan and 55.8 million in China (Eastern provinces) respectively. Data penetration is forecast to rocket from a current negligible base to exceed 90% in Hong Kong, 70% in Taiwan and 60% in China by 2010[2].

Furthermore, operators in Japan have demonstrated the particular revenue potential of youth-oriented packet-switched services. NTT DoCoMo's i-mode service is the most notable example. In its first year, i-mode commanded 5.6 million subscribers, but by August 2002, it had 34.2 million subscribers and constituted the majority of NTT DoCoMo's total subscriber base[3].

The Group believes Japan's wireless data success can be replicated in other markets. The availability of the much touted 3G technology is continuously delayed, leading to persistent negative sentiment towards it. Therefore, the Group believes that markets are ready for "stepping-stone" 2.5G technology, allowing the Group to capitalize on current market opportunities and deliver the sophisticated features demanded by customers right now.

In April 2002, the Group's wholly-owned subsidiary, i100 Wireless, entered into a long-term network access contract, for unlimited bandwidth, with a local 3G license-holding network operator. The Group also secured the necessary licence from the Office of the Telecommunications Authority to operate as a full service mobile operator using an MVNO (Mobile Virtual Network Operator) business structure in Hong Kong.

The MVNO proposition covers all mobile operators that do not have their own allocation of radio spectrum. Subscribers to MVNOs worldwide are expected to increase dramatically, with ARC Group predicting growth from 3 million as of 2001 to over 195 million by 2006. Of this, Asia Pacific is forecast to have a share of 69 million subscribers by 2006, representing 35% of the total worldwide MVNO subscriber base or 11% of all Asia Pacific mobile subscribers[4].

The Group's MVNO structure allows it to operate as a "virtual" operator, with no investment needs in any mobile network infrastructure. Hence, the Group has saved itself from incurring the huge capital expenditure (CAPEX) in infrastructure typically required from traditional mobile operators. With lower financial risk, return on investment (ROI) is likely to be significantly higher.

To furnish its branded wireless data service, the Group has executed contracts with a multitude of key content and application partners, from Japan, Korea, Taiwan, Sweden, UK and Hong Kong, the majority of which are known leaders in their respective niche segments. The Group has also committed to a street-level retail site with tremendous shopper traffic, established third party distribution channels, entered into a contract with a local customer service center, and strategically expanded its staff to augment expertise in marketing, programming, project management and customer service.

Resources from legacy businesses Ask100 and OnAir100 continue to be adapted and utilised to develop the wireless data business. The Group has also been able to provisionally redirect the extensive technological and market expertise of its wireless solutions arm, solution100, to support the wireless data service. This is a contingency tactic for solution100, as its traditional business environment remains subdued from reduced corporate IT spending.

On 29 May 2002, the Company sold its entire shareholding in Acme Landis Operations Holdings Limited ("ALOH"), which is engaged in the business of trading of sanitary fixtures and fittings and a range of hardware, industrial and consumer products, for a nominal consideration of HK$1. As of the date of disposal, ALOH had deficiency in assets of approximately HK$1.7 million. A loan of HK$53 million due from ALOH to the Company which was previously eliminated on consolidation now appears on the consolidated balance sheet of the Group. The repayment of the loan due from ALOH is secured by a pledge given by the purchaser of ALOH in respect of 100 million shares of the Company.

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1 *Source: 'Mobile Internet and Applications', Bear Stearns, June 2001*

2 *Source: 'Asian Cellular', HSBC Securities, May 2002*

3 *Source: Telecommunication Carriers Association, Indosuez WI Carr Securities, March 2002 and NTT DoCoMo, August 2002*

4 *Source: 'MVNO Strategies', ARC Group, September 2001*

PROSPECTS

The Group has built a new business platform as one of the world's first GPRS focused MVNO wireless operators.

As local wireless markets demand increasingly value-added, customised services, the Group, having foreseen this trend, is well positioned to seize market share with its extensive range of compelling wireless data services and applications.

The Group has gone through a period of consolidation and solid preparation, and is now focusing on timely and necessary investment in areas to further develop its new business.

Looking ahead, the Group will build its wireless service in Hong Kong before looking to expand in other Asia Pacific markets. The Group continues to develop relationships with global content partners and local operators, on a mutually beneficial basis, in order to continuously innovate and improve its wireless business.

FINANCIAL REVIEW

Results

The Group's turnover and loss for the six months ended 30 June 2002 were HK$68.8 million (2001: HK$86.8 million) and HK$106.8 million (2001: HK$62.7 million), respectively.

The decrease in turnover was mainly due to the decrease in contract fee revenue from drainage, plumbing and engineering contracting services by HK$14.1 million.

The Group's loss for the six months ended 30 June 2002 amounted to HK$106.8 million which includes a provision of HK$13.7 million for loans to an associate, impaired goodwill of an associate of HK$48.8 million, a loss on discontinued operations of HK$4.6 million and the share of loss of an associate of HK$13.9 million (2001: share of profit of HK$12.4 million). The provision of HK$13.7 million for loans to an associate is made because the proposed listing exercise of that associate is delayed. The Group's operating expenses for the period under review were HK$46 million compared to HK$90 million for the same period in 2001 and the decrease was mainly resulted from the disposal of ALOH and Acme Sanitary Engineering Company Limited in May 2002. Nevertheless, the Group incurred significant expenses in all facets of development work for our wireless data service during the period.

Placing of New Shares

On 4 June 2002, the Group announced that i100 Capital Corporation, a substantial shareholder of the Company, placed 124 million shares of the Company to more than six independent professional and/or institutional investors at a price of HK$0.3 per share ("Placing Price"). The Placing Price represented a discount of approximately 24.1% to the closing price of HK$0.395 per share on 3 June 2002.

On the same date, i100 Capital Corporation agreed to subscribe for 100 million new shares issued by the Company at the price equal to the Placing Price less all expenses incurred in connection with the private placement. The new shares issued represented approximately 10% of the Group's issued share capital immediately before the private placement and approximately 9.1% of the enlarged issued share capital. The net proceeds of the subscription of approximately HK$29 million are planned to be used for development in wireless data service and as general working capital of the Group. All shares issued rank pari passu with the existing shares in issue in all respects.

Financial Resources and Capital Structure

As at 30 June 2002, the total shareholder's fund was HK$96.2 million, a decrease of 24% over that as compared to 31 December 2001. The issued capital was increased to HK$110.2 million due to the fund raised from the issue of 100 million new shares during the period amounting to approximately HK$29 million. Accordingly, the number of issued shares of the Company has been increased from 1,001,873,000 shares to 1,101,873,000 shares as at 30 June 2002. Details of changes in the issued share capital of the Company during the period are set out in note 14 to the unaudited condensed consolidated financial statements. As at 30 June 2002, the Group had no bank borrowing.

Cash Flows

Increase in cash and cash equivalents for the six month period amounted to HK$1.5 million and was principally due to the cash from the placing proceeds. The Group's cash is primarily in Hong Kong and US dollars, and placed in leading commercial banks as time deposits with various maturities.

Charges on Group Assets

As at 30 June 2002, there were no pledged assets of the Group. The pledge of assets for banking facilities granted to the Group as set out in the audited financial statements for the year ended 31 December were all owned by the ALOH and its subsidiaries which were disposed of by the Company during the period.

Contingent Liabilities

As at 30 June 2002, the Group's contingent liabilities amounted to HK$87.1 million. These contingent liabilities are corporate guarantees given to secure general banking facilities granted to the subsidiaries of ALOH. The above corporate guarantees given by the Company will be released on or before 31 December 2002.

Employees and Remuneration Policies

As at 30 June 2002, the Group employed approximately 46 full time management, technical and administrative staff in Hong Kong and elsewhere in the People's Republic of China. The Group remunerates its employees based on their performance, experience and prevailing industry standards. The Group has a share option scheme to motivate valued employees.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the six months ended 30 June 2002, except that the independent non-executives of the Company are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

Audit Committee

The Audit Committee meets regularly with the Company's financial management and external auditors to discuss and review financial reporting, auditing and internal control matters. The members of the Audit Committee comprise Mr. Wong Ying Wai, Wilfred (chairman) and Ms. Tsang Wai Chun, Marianna, both of whom are independent non-executive directors. The Audit Committee has already reviewed the Group's unaudited condensed financial statements for the six months ended 30 June 2002.

Director's Interests In Shares

As at 30 June 2002, the directors of the Company and their associates held the following interests in the issued share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance"):

	Number of ordinary shares held and nature of interest		
Name of director	**Personal**	**Corporate**	**Total**
KAN, Siu Kei Laurie	–	137,000,000	137,000,000
VONG, Tat Ieong David	–	137,000,000	137,000,000

Note:–

Messrs. Kan Siu Kei, Laurie and Vong Tat Ieong, David were interested in an aggregate of 137,000,000 shares through their respective interests in i100 Holdings Corporation ("i100 Holdings"). i100 Holdings is beneficially owned as to 50% by Mr. Kan Siu Kei, Laurie through Romaine Investment Limited ("Romaine"), and 40% by Mr. Vong Tat Ieong, David through Bev-Tiff Corporation ("Bev-Tiff"). Each of Romaine and Bev-Tiff are 100% owned and controlled by Mr. Kan Siu Kei, Laurie and Mr. Vong Tat Ieong, David, respectively,

Save as disclosed above, none of the directors of the Company or their associates had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations required to be disclosed pursuant to the SDI Ordinance.

Directors' Rights to Acquire Shares

Apart from as disclosed under the headings "Directors' Interests In Shares" above and "Share Option Scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire such rights in any other body corporate. No share options were in issue to any of the directors during the period.

Share Option Scheme

The following share options granted to the continuous contract employees of the Group were outstanding as at 30 June 2002:–

Date of options granted	Share option scheme category [2]	Outstanding options as at 1 Jan 2002	Granted during the period	Lapsed during the period	Outstanding options as at 30 Jun 2002	Exercise period of share options [3]	Exercise price of share options [4] *HK$*	Share price at grant date of options [5] *HK$*
2 Aug 2000 [1]	A	3,475,000	–	300,000	3,175,000	2 Aug 2001 to 1 Aug 2010	0.75	0.8
6 Oct 2000 [1]	A	1,540,000	–	500,000	1,040,000	6 Oct 2001 to 5 Oct 2010	0.47	0.56
26 Mar 2001 [1]	A	6,875,000	–	300,000	6,575,000	26 Mar 2002 to 25 Mar 2011	0.385	0.39
31 Aug 2001 [1]	B	38,736,000	–	1,700,000	37,036,000	31 Aug 2002 to 30 Aug 2011	0.4032	0.5
Total		50,626,000	–	2,800,000	47,826,000			

Notes:–

1. The vesting period is the period of three years after the date of grant. One-third of share options become exercisable after 12 months from the date of grant, and on subsequent of 18 months, 24 months, 30 months and 36 months of the date of grant, further one-sixth of the options become exercisable.

2. Scheme A adopted on 21 August 1991 and terminated on 22 May 2001. Scheme B adopted on 22 May 2001 and terminated on 6 June 2002. On 6 June 2002, a new share option scheme classified as Scheme C was adopted and approved by the shareholders of the Company. No share option has been granted under the Scheme C since its adoption.

3. The exercise period commences on the first anniversary of the date of grant and ends 10 years after the date of grant. No share options were exercised or cancelled during the interim period.

4. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

5. The price of the Company's shares disclosed as at the date of the grant of the share options is The Stock Exchange of Hong Kong Limited closing price on the trading day immediately prior to the date of grant of the options.

Substantial Shareholders

As at 30 June 2002, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were, directly and indirectly, interested in 10% or more of the Company's issued share capital:

Name of shareholder	*Notes*	Number of shares held
Asia Pacific Growth Fund III, L.P.	*1*	448,000,000
i100 Capital Corporation	*1*	293,000,000
i100 Holdings	*2*	137,000,000
Bev-Tiff	*2*	137,000,000
Romaine	*2*	137,000,000

Notes:–

1. Asia Pacific Growth Fund III, L.P. ("H&Q AP Fund") held a direct interest in 155,000,000 shares. H&Q AP Fund is beneficially interested in approximately 69.4% of the share capital of i100 Capital Corporation ("i100 Capital"). By virtue of the SDI Ordinance, H&Q AP Fund is therefore also deemed to be interested in the 293,000,000 shares held by i100 Capital.

2. i100 Holdings is owned as to 50% by Romaine, 40% by Bev-Tiff and 10% by Amie Corporation. Each of Romaine and Bev-Tiff is entitled to exercise or control the exercise of more than one-third of the voting power at the general meeting o fi100 Holdings. By virtue of the SDI Ordinance, Romaine and Bev-Tiff are deemed to be interested in the 137,000,000 shares held by i100 Holdings.

Save as disclosed above, no person, other than Messrs. Kan Siu Kei, Laurie and Vong Tat Ieong, David, whose interests are set out under "Directors Interests In Shares" above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Purchase, Redemption or Sale of Listing Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2002.

Appreciation

On behalf of the Board, I would like to take this opportunity to extend my sincere appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board
KAN, Siu Kei Laurie
President & Chief Executive Officer

Hong Kong, 23 September 2002