MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results of First Half of Fiscal 2003

For the six months ended 30 June 2003 (the "Period"), China Nan Feng Group Limited and its subsidiaries (the "Group") incurred a loss attributable to shareholders of HK$72.2 million, approximately twice as high as the corresponding period in 2002, largely due to the increase in amortisation of intangible assets. Loss per share for the period was HK3.7 cents.

Change of Company Name

The shareholders of the Company resolved at the Annual General Meeting held on 27 May 2003 that the name of the Company be changed from Prosper eVision Limited to China Nan Feng Group Limited and to adopt "中國南峰集團有限公司" as its Chinese name for identification purpose.

Construction Contractor

The overall construction market remained extremely difficult in Hong Kong in the first half of 2003 amid the continued doldrums in the property market and the depressing effects of SARS. As a consequence, the turnover of the Group's construction business in Hong Kong dropped significantly to HK$2.3 million (2002: HK$9.7 million). On the other hand, the strategy of shifting our focus to the PRC gradually paid off. The turnover of the Group's construction business in the PRC filled the gap left by the drop in Hong Kong turnover and recorded a turnover of HK$7.4 million (2002: nil).

Our construction contract costs mainly represent direct materials and subcontracting costs for construction projects. These costs increased slightly to HK$10.7 million (2002: HK$10.2 million).

Provision of Network Security Services

During the period, 深圳安網達網絡技術有限公司, a 60% subsidiary of the Group which is principally involved in the development and manufacture of internet-secured personal computers and network security devices in the PRC also suffered due to the prolonged negative effect of the burst of the internet bubble and the effect of SARS, recorded a drop in turnover to HK$0.75 million (2002: HK$1.2 million). The operating loss increased substantially to HK$51.5 million (2002: HK$19.5 million), due largely to the amortization of intangible assets amounting to HK$49.1 million (2002: HK$19.1 million).

System Integration and IT Training

Intwell Technology (S) Private Limited ("Intwell"), of which the Group has a 35% beneficial interest (2002: 50%), is principally engaged in the development, production and sale of computer hardware and software, integration of computer software and provision of training and after sales services in Singapore. The Singapore economy was similarly affected by SARS and Intwell contributed an operating loss of HK$3.9 million (2002: HK$4.3 million on a consolidation basis as the Group has board control last year) to the Group for the first half of 2003.

Hotel Operation

To expand the Group's construction business so as to capture hotel decoration projects in the PRC, the Group acquired Smartop Development Limited ("Smartop") last year, which holds a license to manage and operate a hotel in Guangdong, the PRC for an initial period of two years from 8 March 2002 extendable for a further period of eighteen years. The hotel operation in Guangdong was likewise badly affected by SARS and Smartop recorded an operating loss of HK$9.9 million which arose mainly from the amortisation of intangible assets amounted to HK$7.3 million. (2002: nil)

Proposed Acquisitions Failed to Materialise

Development contract in the PRC

On 14 February 2003, the Company has entered into an agreement to acquire a 100% interest in Starwood Investment Limited ("Starwood") for an aggregate consideration of HK$14 million payable as to HK$1.4 million in cash and HK$12.6 million by the issue of redeemable promissory notes. Starwood holds a Development Contract regarding the development of the Mandarin Garden situated at Zhangchun, Fucheng, Dongguan City, Guangdong Province, the PRC. On 9 April 2003, a supplemental agreement was entered into and the completion date of the agreement has been extended to a date on or before 15 May 2003. In view of the outbreak of SARS in the PRC, the Company opined that the property markets in Dongguan would be adversely affected and decided not to proceed with the acquisition of Starwood. The Supplemental Agreement lapsed on 15 May 2003.

Supermarket operations in the PRC

On 13 March 2003, the Company has entered into a Heads of Agreement with Mr. Tam Jin Rong ("Mr. Tam"), a substantial shareholder of the Company, to acquire a 40% interest in Dongguan Zhonghao Mart Co., Ltd ("Zonghao") for an aggregate consideration of HK$26.8 million to be satisfied by the issue of 268 million new shares at HK$0.10 each. Zhonghao will hold a 100% interest in four supermarkets in Dongguan, Guangdong Province, the PRC and a 50% interest in a supermarket in Shunde, Foshan, Guangdong Province, the PRC. The Company entered into a termination agreement with Mr. Tam on 15 August 2003 to terminate the Heads of Agreement for the reason that the Company was not satisfied with the results of the due diligence review.

Control over Operating Expenses

General and administration expenses increased from approximately HK$14.2 million in 2002 to approximately HK$20.3 million in 2003 due largely to the increase in professional and consultancy fee as a result of on-going litigations and the restructuring of the finances of the Group. The staff costs actually declined from HK$5.9 million to HK$3.0 million. This trend will continue as the Company is focusing more towards the PRC and thus will engage an increasing number of the PRC staff. On the other hand, the number of Hong Kong staff will decline. The directors will continue to control the overheads of the Company in line with the level of its business activities.

Amortisations of Intangible Assets

Amortisation of intangible assets amounted to HK$56.6 million (2002: HK$21.3 million) accounted for over 67% of the total expenses for the period. The amortisations mainly arose from the acquisition of Cyber Energy Inc. ("Cyber Energy") in 2001, and the acquisition of Intwell and Smartop last year.

Liquidity and Financial Resources

Convertible Loan Notes

On 26 March 2002, the Company issued convertible loan notes in the aggregate amount of HK$35.0 million as part consideration for the acquisition of Great Win International Limited. These convertible loan notes bear interest at 3% per annum with maturity date on 25 March 2005. During the period, there was no redemption of convertible loan notes. The aggregate amount of the convertible loan notes outstanding as at 30 June 2003 were HK$17.0 million.

Redeemable Debentures

On 27 November 2001, the Company issued redeemable debentures in the aggregate amount of HK$201.8 million as part consideration of the acquisition of Cyber Energy. These debentures bear interest at 6% per annum with maturity date three years from the date of issuance. During the period, a total of HK$0.8 million debentures was redeemed (2002: HK$68.0 million) as part of debt equity swap. The aggregate amount of the debentures outstanding as at 30 June 2003 was HK$52.0 million.

Debt Equity Swap

In May 2003, the Group has entered into settlement agreements ("Debt Equity Swap") with 16 creditors whereby these creditors agreed to accept 108,774,440 new shares of the Company at HK$0.10 each as full and final settlements of the aggregate liabilities due to them amounting to HK$10,877,444.

Gearing Ratio

The Company's consolidated interest bearing debts less cash on hand amounted to HK$67.8 million (2002: HK$68.0 million) in contrast to the shareholders' equity of HK$13.1 million (2002: HK$74.4 million), resulting in a gearing ratio of 520% as at 30 June 2003 (2002: 91%). The increase was mainly due to the amortisation of intangible assets and the operating loss for the period resulting in a much smaller shareholders' equity.

Finance Costs

Finance costs represented mainly interests paid and accrued on convertible loan notes and redeemable debentures.

Exchange rate risk exposure

Most of the Group's transactions were in Hong Kong Dollar and Renminbi. As the exchange rate of Renminbi against Hong Kong Dollar was relatively stable during the year. The Group was not exposed to any significant exchange risk in the first half of 2003.

Contingent liabilities

As at 30 June 2003, the Group had the following contingent liabilities:

(i) The Company gave letters of indemnity amounting to approximately HK$9.9 million to certain insurance companies for their issuance of surety bonds, which are inherent in the nature of the Group's construction business. A summary judgment was entered into against the Company on 9 September 2003 for providing security to an insurance company for its issuance of a surety bond amounting to approximately HK$8.7 million. The Company intends to appeal against the decision. Counsel is of the opinion that the Company stands a fair chance of success in the appeal.

(ii) The Company provided guarantees to certain developers/main contractors in the PRC in respect of certain construction and renovation contracts entered into by a wholly owned subsidiary of the Company. Subsequent to the period end, claims were received from developers/main contractors in respect of two construction and renovation projects in the PRC amounting to approximately HK$17.3 million. The Company is taking legal advice regarding these claims. As the outcome cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.

(iii) The Group is undergoing a number of legal proceedings with its customers or sub-contractors in respect of alleged contractual entitlements. The amount of claim is approximately HK$11.5 million. As the outcome of the litigation cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.

Two wholly-owned subsidiaries of the Company were involved in litigation in relation to the interior fitting out works to hotel and services apartment of Beijing Oriental Plaza. On 28 May 2003, the legal actions in Hong Kong were mutually agreed to be stayed and the venue was transferred to the Peoples' Court in Beijing, the PRC, the judgment of which will be binding on both parties. The litigation in Beijing is still proceeding and hearing was postponed to later this year. The aggregate amount of claims by Beijing Oriental Plaza Co. Ltd and Beijing Construction Holdings Company Limited against the two subsidiaries of the Company was approximately HK$42.7 million. As the outcome of the litigation cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.

A wholly owned subsidiary of the Company was involved in litigation in relation to alleged legal services provided by China Top Consultants Limited. Judgment was entered against the Company on 4 August 2003 in the sum of approximately HK$3.2 million plus interest of approximately HK$0.65 million. Provisions of these amounts have been made in the financial statements.

(iv) On 15 August 2002, Mr. Alfred Siu ("Mr. Siu"), an ex-director of the Company issued a writ against the Company allegedly suffered loss and damages relating to purported share options exercised in 1999 amounting to approximately HK$18.8 million. On 4 July 2003, a summary judgment was awarded against the Company in the amount of HK$18.8 million plus interest and costs. On 8 August 2003, the Company received a statutory demand from Mr. Siu demanding immediate payment of HK$25.8 million, being the amount awarded by the court (including interest calculated up to 8 August 2003). In the event that the Company is required to pay such amount, the financial resources of the Group will be significantly constrained. Based on the legal advice received, the Company stands a fairly good chance in an appeal and will vigorously appeal against the decision which will be heard on 6 October 2003. Therefore, no provision has been made in the financial statements.