MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

For the six months ended 30 September 2001, the Group recorded a turnover of approximately $5,133,000 (2000: $10,830,000) and reported a loss of approximately $64,344,000 (2000: $24,990,000). The decrease in turnover was mainly caused by the disposal of two subsidiaries in March 2001. These subsidiaries generated rental income to the Group amounting to $5,345,000 in the six months operations ended 30 September 2000. The substantial increase in loss attributable to shareholders was caused by the additional provision of $33,150,000 made for an investment in the equity of a telecommunications company.

Business review and prospects

The Group's performance is severely impacted by the adversely change in market atmosphere which IT industry suffered most. This unfavourable environment is further accelerated by the "9.11" incident. Due to the unfavourable global economy and uncertainties within the IT industry, the Group took a cautious approach and adopted a prudent business strategy by slowing down its development in the telecommunications infrastructure business and a full provision of additional $33,150,000 was made against an investment in the equity of a telecommunications company during the period under review. Despite the stagnant investment atmosphere in this period, the Directors believe that in the long term, the "9.11" incident may accelerate the structural consolidation of the IT business worldwide and attract more funds into the Asia-Pacific region. Associated with the PRC's accession to the World Trade Organization, the Group anticipates a business potential for the industry.

During the period under review, the development of Unified Messaging Technology (UMS) has been completed. The Group is actively seeking potential business partners to launch this value-added service to customers. The data centre in Hong Kong continued to operate. However, in view of the rapid changes in market conditions and high operating cost required for maintaining the service, the management anticipates that prospects for the data centre business are not promising and the Group ceased these operations in November 2001. This move enhances overall cost effectiveness and facilitates better resources allocation.

In addition, the Company changed its Chinese name from "光通數網控股有限公司" to "光通數網國際控股有限公司" with effect from 7 May 2001. The English name remains unchanged.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Looking ahead, the Group will continue to explore ventures with potential business partners. In view of the ever-changing market situation, the Group will actively but cautiously seek new investment opportunities with promising prospects in other fields that complement and diversify its existing business operations, further enhancing business performances in the industry. At the moment, several projects are under negotiation. With these prudent business strategies behind it, the Group will place continued effort into the second half of the year.

Financial analysis

During the period under review, the Group had raised $100,000,000 by issuing a 5% 3 years convertible bonds to an independent third party. Up to the date of this report, the convertible bonds in the amount of $41,000,000 have been converted into the Company's shares. The proceeds were utilized to reduce the long term liabilities. This move successfully reduced the interest burden borne by the Group.

In August 2001, the Company undertook a capital reorganization. The reorganization included firstly a share subdivision that one Company's share of $0.10 each was subdivided into 2 subdivided shares of $0.05 each; secondly the nominal value of each of the subdivided shares in issue was reduced from $0.05 each to $0.01 each while each unissued subdivided share of $0.05 each was further subdivided into five shares of $0.01 each. The Directors believe that the reorganization will facilitate any capital raising when circumstances arise and allows flexibility in pricing for any issue of share in future. However, the Directors currently have no intention to issue further new shares. At the same time, the Company adopted a new Bye-laws. The new Bye-laws contains provisions which are relevant to the administration and operation of the Company and its business, and additional protection to the shareholders of the Company which were not covered by the old Bye-laws.

As at 30 September 2001, the Group had a total of $788,000 (31 March 2001: $1,500,000) in cash and cash equivalents, total loan facilities of $313,318,000 of which $151,181,000 was drawn down within which $139,997,000 is not repayable prior to 30 September 2002. All facilities are denominated in Hong Kong dollars, unsecured and interest bearing at prevailing commercial lending rates. The Directors believe that the Group has sufficient cash flow to meet all its commitments and operating needs.