

# Management Discussion and Analysis

## FINANCIAL RESULTS

During the year from 1 April 2001 to 31 March 2002, the Group recorded a turnover of approximately HK\$324 million, representing a substantial increase when comparing to last corresponding year of approximately HK\$31 million. The profit from continuing operations was approximately HK\$23 million as compared to approximately HK\$6 million for the previous financial year. For the year ended 31 March 2002, the profit attributable to shareholders was approximately HK\$9 million.

## BUSINESS REVIEW

On 12 June 2001, the acquisition of 51% interest in Beijing HollyBridge System Integration Company Limited (“HollyBridge”) at a cash consideration of HK\$16 million was completed. The acquisition has strengthened the IT business and enlarged the revenue of the Group, in spite of the global economic downturn and the severe situations of IT industry all over the world.

In light of the tremendous increase in demand of the broadband access by the internet users, the Group has embarked in the research and development of Very High-rate Digital Subscriber Line (“VDSL”) during the year paving the way for becoming one of the broadband network products vendors. Up till now, the Group has accomplished the development of the first generation VDSL products and VDSL-based Network Management Software. Having been tested in several districts in the PRC, such as Beijing and Zhejiang, our VDSL products showed apparent advantages over other competitors, which attracted some telecom carriers to set up their trial networks with our products.

In November 2001, the Group entered into a letter of intent with Shenzhen Venture Capital Co. Ltd. in respect of the proposed subscription of equity interest in Allnet Co., Ltd. (formerly known as Telecom Plus Technology (Shenzhen) Limited) (“Allnet”). The proposed subscription funds will be used to develop the VDSL project currently conducted by Allnet. The proposed subscription is still under negotiation whilst there have been other investors interested in financing the VDSL project.

## ACQUISITIONS

In April 2002, the Group entered into the sales and purchase agreement to acquire 100% equity interest of Beijing Chang-Ran I.T. Co. Ltd. (“Changran”) and 50% equity interest (with control) of Guangzhou Poly Network Technology Limited (“Poly Network”) via acquisition of a B.V.I. company at a consideration of HK\$44 million, comprising HK\$8 million in cash and the issue of 80 million new shares at HK\$0.45 each totaling HK\$36 million.

Changran is principally engaged in the provision of application software system, for example data analysis system. Its principal place of business is in the PRC with major clientele in the insurance and tobacco industries. The Group will enrich its business solutions offering through acquisition of Changran that has proven analytical and business support systems expertise. Changran has strong business credential with China Life Insurance Co. and will further enhance its distribution capabilities through cross-selling with other group companies.

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Poly Network is principally engaged in the design, technical consultation and maintenance on (i) network integration and (ii) system integration business. Its principal place of business is in the PRC with major clientele in the telecommunications and property development markets. The acquisition of Poly Network will broaden the distribution of the Group in southern China.

In April 2002, the Group entered into agreements to acquire 6.87% of shareholding in Dynamic Holdings Limited (“Dynamic”) (SEHK Code: 29) from various independent parties by a share swap for an aggregate consideration of about HK\$40.62 million. The deal was completed in June 2002.

Dynamic has been engaging in property investment and development business in the PRC and Hong Kong. The possession of good asset quality, seasoned and qualified management team and the growth potential of the underlying business by Dynamic represent a valuable opportunity for the Group to increase the earning base and at the same time, enhance the asset quality.

## FUTURE PROSPECTS

### IT industry

In the future, we will continue to devote resources to the business solutions and software development to meet the changes of China IT Industry. The reform of China telecom industry will bring more opportunities to its service providers in that the customer base will be enlarged. The Beijing Olympic Games of 2008 can certainly provide new chances to the Group because we are a major technology provider for Beijing Telecom and Beijing Capital Information Development Corporation, which will be the main builders for the IT projects of 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.

### Investment opportunities

Both the governments of the HKSAR and Shenzhen recognize the need to remove the bottle-necks to trade and traffic at the existing boundary crossings and fuse the economy of Pearl River Delta (“PRD”). In anticipation of a rapid growth in cross boundary travel demands between Hong Kong and other places in the PRD in the forthcoming years, the fourth land boundary crossing – Shenzhen Western Corridor (“SWC”) should be built as soon as possible. SWC will be a dual three-lane expressway linking Shekou in Shenzhen and Ngau Hom Shek in Yuen Long and is expected to play a vital role in PRD. The cross boundary traffic forecasts in SWC will be 35,000 vehicles per day.

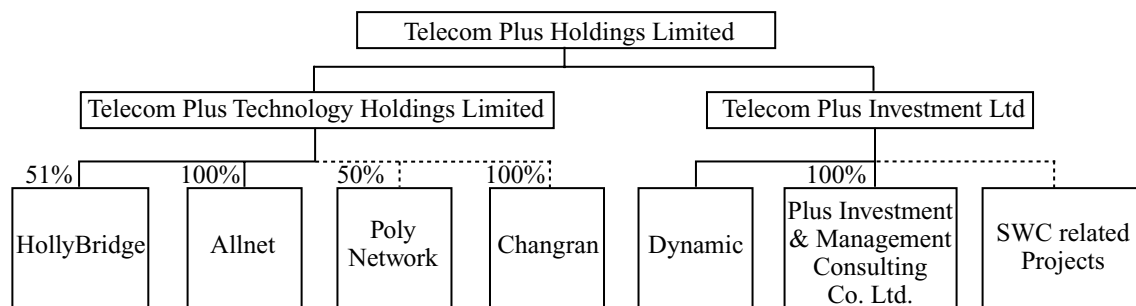
Hong Kong Disneyland Phase I, planned to open in 2005, will be located at Penny’s Bay of Lantau Island. The latest statistics suggest that over 35% of our visitors come from the Mainland. Once Disneyland is fully operational, the number of Mainland visitors will dramatically increase. This further strengthens SWC’s role as the Mainland tourists spend only 40 minutes from Shekou to Hong Kong Disneyland via SWC, which brings much convenience to the Mainland tourists.

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SWC will create unlimited business opportunities in the fields of logistics, property development and tourism in Hong Kong and Shenzhen. Shenzhen side of SWC is proposed to land at Dong Jiao Tou and thus, Dong Jiao Tou has great potential in becoming a gateway to Shenzhen. As a result, the property market in the western region of Shenzhen has started heading north recently and the momentum is expected to accelerate when SWC and Hong Kong Disneyland are completed in 2005. Dynamic, which has its valuable asset located in Dong Jiao Tou of Shekou, represents a good example of our latest promising strategic investment.

In July 2002, the Group entered into letters of intent with Poly Southern Group Co. Ltd. and Shenzhen Xili Lake Holiday Resort regarding the co-development of Shenzhen Poly Castle related project and Shenzhen Xili Lake Holiday Resort related project, respectively. Both projects will be multi-purposes development featuring commercial plazas, offices, hotels and leisure facilities.

We shall bring in strategic partners via our network in USA to bring in capital, international managerial expertise and to increase the value of the investment projects which in turn increase our shareholders' value. The development of the Group will be focused on IT industry as well as strategic investment as shown in the chart below:



## EMPLOYMENT AND REMUNERATION POLICIES

As at 31 March 2002, the Group had approximately 400 employees. Total staff costs (including directors' emoluments) incurred during the year amounted to approximately HK\$17 million. Remuneration packages are generally structured by 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, grant 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.

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## LIQUIDITY AND FINANCIAL RESOURCES

During the financial year, the Company allotted 240 million new shares with the net proceeds of approximately HK\$64 million for acquisition of HollyBridge and general working capital.

The Group generally finances its operations with internal generated resources and the loan facilities provided by various financial institutions. Borrowings obtained by the Group amounted to approximately HK\$47 million at fixed interest rate for trade finance purposes. The Group had bank balances of approximately HK\$8 million as at 31 March 2002.

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 year.

As at 31 March 2002, the Group's current ratio as a ratio of current assets to current liabilities, was 1.087 (2001: 0.540) and the gearing ratio, as a ratio of total liabilities to total assets, was 0.782 (2001: 1.762), which showed the substantial improvement in the liquidity position of the Group.

With regard to the convertible bonds in the outstanding principal sum of US\$3.6 million, the Company entered into an agreement with the bondholder pursuant to which the maturity date has been extended to June 2003. The bonds shall be converted in 4 tranches for US\$900,000 each at a conversion price of HK\$0.25, subject to adjustment pursuant to the agreement.

There has been a remarkable improvement in our financial position. As at 31 March 2002, 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, we are 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 and emphasise on balance sheet management and cash earnings.

## PLEDGE OF ASSETS

As at 31 March 2002, bank deposits of approximately HK\$4 million were pledged to a bank to secure banking facilities granted to the Group. In addition, other investments of approximately HK\$5 million were pledged to secure other borrowings of the Group.

## CONTINGENT LIABILITIES

As at 31 March 2002, the Company provided guarantees in respect of other loans granted to a disposed subsidiary to the extent of approximately HK\$36 million. In addition, the Company provided a guarantee for a loan facility provided to a subsidiary to the extent of approximately HK\$21 million.

Guarantee given by the Group to a bank in respect of bills of exchange discounted with recourse and the warranty bonds issued to a customer amounted to approximately HK\$14 million.