MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

For the six months ended 30th September, 2003, turnover of the Group was HK$57,164,000, of which HK$55,836,000 was contributed by the new system integration and software development business, representing an increase of 16.76 times over the turnover of HK$3,410,000 in the corresponding period of last year. The Group recorded a consolidated loss after tax and minority interests of HK$8,260,000 for the Period, representing a decrease of 34.5% over the loss of HK$12,610,000 in the corresponding period of last year. The loss per share for the Period was HK0.27 cent, when compared to HK0.41 cent in the corresponding period of last year, representing a decline of 34.15%.

Details of the operations and results of the Group's businesses are as follows:

System integration and software development

Turnover of the Group's system integration business division conducted by Joy Heaven Group which is engaged in the sales of computer products, provision of system integration services, software development and network management was HK$55,836,000 and the division recorded a loss of HK$1,332,000. The outbreak of SARS during the Period had hindered the development of this division as many customers withdrew or delayed their business expansion plans. However, despite the unfavourable business environment, the management remained highly committed and was successful in securing new business, obtaining over 30 new contracts with an aggregate contract sum of approximately RMB60.41 million over the Period.

Real Estate

Due to the disposals of the investment properties in Hong Kong in January 2003, the rental income for the current period represented only the rental income from the investment properties in the PRC. The division's turnover and profit for the Period were HK$1,328,000 and HK$653,000 respectively. On 31st July, 2003, agreements were entered into with associates of a substantial beneficial shareholder to dispose of the remaining properties of the Group in return for a 45% shareholding in a telecom value-added services group in the PRC. Please refer to the paragraph "New Business" below for details.

NEW BUSINESS

On 31st July, 2003, the Group entered into agreements with associates of CITIC, a substantial beneficial shareholder, (i) to acquire 45% of equity interests in Beijing Hong Lian 95 ("HL95") at a consideration of RMB13.6 million; (ii) to form a joint venture with the original 55% shareholder of HL95 to run the business and to inject RMB22.5 million into HL95; and (iii) to dispose of all investment properties of the Group in the PRC at their respective book value as at 31st March, 2003 which amounted to approximately HK$36 million. The total investment cost of this transaction amounted to RMB36.1 million (equivalent to approximately to HK$34 million) which will be settled by the sale proceeds of the investment properties in the PRC. No cash outflow is therefore required and in return the Group will receive approximately HK$2 million as a result of the realization of the Group's non-core assets.

HL95 is a nation-wide telecommunication value-added services ("Telecom VAS") company with operations in more than 70 cities in the PRC. Its main business activities include short messaging services ("SMS"), interactive voice response systems ("IVRS") and enterprise value-added telecommunications services.

HL95 is an important service provider ("SP") for the China Mobile Monternet platform, which allows SPs to provide content services such as wireless data applications and information provision to individual and business end users. HL95 is one of the leading SMS service providers in the PRC providing a variety of premium services such as dating games, news and jokes provision, song dedication, stock quotes, ringtones and wallpaper downloads and multimedia messaging services ("MMS").

The consolidated net asset value of HL95 adjusted in accordance with HK GAAP as at 30th June, 2003 was RMB37.7 million and the profit before and after taxation and minority interest, adjusted in accordance with HK GAAP for the six-month period ended 30th June, 2003 were RMB15.2 million and RMB7.9 million respectively.

A Special General Meeting was held on 10th September, 2003 and approval for these connected transactions from the shareholders was obtained. The completion of these transactions is subject to the approvals of the relevant PRC authorities and the process of obtaining all the relevant approvals is currently in progress.

PROSPECTS

Our mission is to become a major player in the Telecom VAS industry in the PRC. In this regard, the Group is able to count on the strong support and network of its beneficial shareholders such as CITIC as evidenced by CITIC's sale of a substantial interest in HL95 to the Group in exchange for our non-core assets, thus putting the Group in good stead to achieve its stated objective of becoming a highly successful and major player in the PRC Telecom VAS industry.

With the signing of the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the PRC, Hong Kong telecom services operators will benefit from the sector opening-up and liberalization on the Mainland beyond PRC's commitments in its WTO agreement especially in the area of value-added telecommunications services. The company will utilize its core strength to capitalize on this trend in order to further solidify and expand its business in the lucrative PRC market.

During the Period, the management team was reinforced by the appointment of three new executive directors. The new directors appointed include personnel with significant expertise and many years of experience in the Hong Kong listed company management, mergers and acquisitions and the PRC telecommunications and information management sectors.

The Group is well positioned to benefit from the rapid growth in the PRC Telecom VAS industry. With the strong support from the PRC government towards Hong Kong investors in the Telecom VAS industry and also strong support from our substantial beneficial shareholder, CITIC, the management is confident that the Group will realize its business objectives and achieve profitable returns for the shareholders in due course.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group continued to consolidate its financial position and realized its non-core assets in order to acquire new businesses. Hence, there was no change to the capital base of the Company.

As at 30th September, 2003, the Group's shareholders' funds amounted to approximately HK$93,846,000, compared with HK$102,034,000 as at 31st March, 2003. As at 30th September, 2003, the Group had net current assets of approximately HK$48,258,000, compared with net current assets of HK$55,900,000 as at 31st March, 2003.

As at 30th September, 2003, there were no bank borrowings while other interest bearing borrowings amounted to HK$5,003,000. The Group's gearing ratio calculated by all interest bearing borrowings over the shareholders' funds was 5.33%. As most of the Group's transactions, bank deposits and borrowings are primarily denominated in Hong Kong dollars, Renminbi and United Stated dollars, the Group's exposure to foreign exchange fluctuations was minimal.

As at 30th September, 2003, the Group has operating lease commitment of HK$2,917,000 in respect of the office premises of the Group and a contingent liability of HK$200,000 for guarantees given in lieu of utility deposits.

CHARGE OF ASSETS

There was no charge over the Group's assets as at 30th September, 2003.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September, 2003, the Group employed a total of 107 full-time employees, of whom 13 were working in Hong Kong and 94 were in Mainland China.

Employees are awarded by reasonable and competitive remuneration on a performance-related basis to motivate employees to provide greater contribution to the Group. The Group has also set up share option schemes pursuant to which employees of the Group may be granted options to subscribe for the Company's shares.