

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations

#### *Group Financial Results*

During the six months ended 30 June 2001, the Group turnover increased by 83.5% to HK\$308.3 million (2000: HK\$168.0 million) over the same period in 2000. The growth was mainly attributable to the contribution of the network and application solutions business in China which accounted for 91.9% of the Group's turnover.

Profit attributable to shareholders for the period under review is HK\$2.2 million (2000: HK\$9.3 million), a decrease of 76.3% over the same period last year. Basic earnings per share is 0.83 cents (2000: 3.70 cents), decreased by 77.6% when compared with last year.

The Board does not recommend payment of any interim dividend for the half-year ended 30 June 2001 (2000: Nil).

#### *Liquidity and financial resources*

Net cash increased from HK\$232.5 million to HK\$235.9 million, mainly as a result of the operating profit and an increase in share capital.

As of 30 June 2001, the Group's net asset value is HK\$395.3 million (31 December 2000: HK\$398.6 million) and there are no long-term debts commitment.

#### *Network and Systems Integration Business*

Operating through the subsidiary Computer And Technologies Integration Limited ("C&T Integration"), the Group's network and systems integration business in China remains the major revenue and operating profit contributor. The business volume of C&T Integration continues to grow healthily building on top of a solid customer base with substantial repeat businesses. Despite the strong competition, the Group managed to control the operating overheads and achieved a higher revenue and profit contribution within the subsidiary.

On top of the Cisco Gold Partner Certification obtained last year, C&T Integration is also chosen by Cisco China as one of the five Strategic Alliance partners, bringing to the Group additional cost advantage over rivalries and also increased sales opportunities through integrated collaboration with Cisco. In addition, the Group has also formed partnership with IBM. The new partnership will enable the Group to leverage the strong presence of IBM in China and to capture new business opportunities in systems integration and solutions services.

#### *Distribution Business*

While affected by the weakened consumer spending in Hong Kong, Maxfair Technology, the Group's subsidiary focusing on value-added distribution of niche products related to multi-media applications, is still maintaining a relatively healthy gross margin and making profit contribution to the Group.

In order to expand business coverage, the Group established a joint-venture in Taiwan which commenced operations in August. While the contribution from this new venture would not be significant in 2001, the management believes that it is a strategic move for Maxfair to gradually create a regional value-added distribution network.

### *Enterprise Applications & Operations Outsourcing Services Business*

Operating through the subsidiary Global e-Business Services Limited (“GO-Business”) providing high quality application and operations outsourcing services, the Group has established a strong leading position to become the partner of choice for enterprises e-business applications, in particular for e-procurement and e-tendering.

The state-of-the-art Internet-based electronic tendering services being operated by GO-Business have been providing services to a number of enterprise procurers and government organizations. In addition, it has recruited about 3,000 paid subscribers. The accumulated subscriber base is reaching a critical mass upon which the Group could leverage in generating additional revenue through cross-sales of other services.

Since its operations in April 2000, the Electronic Tendering System (“ETS”) has processed more than 70% of government tenders for the Government Supplies Department of Hong Kong SAR. The Group also received a new contract from the Government to extend the services scope of ETS and to cover larger monetary-value tenders from the Government’s Central Tender Board.

The management believes that GO-Business is well positioned to capture more applications and operations outsourcing opportunities from the government departments and commercial sector. Besides, with the solid business pipeline in Hong Kong and the territorial expansion into China through China-e-tendering.com, GO-Business should start to contribute profit to the Group from the last quarter of this financial year.

### *Software and Solutions Business*

Throughout the last 18 months, the Group has been building up the core competency in providing large-scale IT solutions implementation services. Last year, in order to timely capture the strong market demands for high quality e-Business enabling and related IT solutions, the Group chartered two subsidiaries and a joint-venture company, namely Global e-Business Enabler Limited (“Ge-BE”), Computer And Technologies Software Limited (“C&T Software”) and HutchTech Resources Limited (“HutchTech”), to focus on e-business enabling business, software product R&D and application development services, respectively.

The Group’s focus in the e-Business enabling services has resulted in the Group’s successes in achieving high-profile project wins such as the Electronic Service Delivery and Electronic Tendering System for the Hong Kong SAR Government. The Smart-Series and e-Series product suites from C&T Software also attracted sizeable customers like Jiangsu Mobile, Zhejiang Mobile, Changzhou Cable TV and e-seg.net. HutchTech, the 50-50 joint-venture with a substantial shareholder of the Group – Hutchison Whampoa Limited, also established in February its first software development centre in Shenzhen of Mainland China to provide cost-competitive IT services.

In addition, the Group secured new business from commercial customers like Wing Lung Bank, Bank of East Asia and MTR Corporation etc. Leveraging its shareholder, Hutchison Whampoa Group, the Group has also entered into new business opportunities in providing services to Logistics Information Network Enterprise (LINE), PetroChina-Hutchison Whampoa Information Technology Co. Ltd., Hutchison Properties and Hutchison CSFB Direct.

However, the business environment has been unfavourably challenging. Since the beginning of the year, the market demand for e-Business enabling services had rapidly vanished as a result of the global economic down turn and the increasingly cautious attitude in initiating e-commerce related projects. On the other hand, although most of the Group customers are large corporations with proven business model and were not directly hurt by the burst of the dot-com bubble, their IT budget had become conservative and their decisions in IT spending were delayed.

Facing the challenging market environment, the Management has been taking a positive attitude to re-deploy existing resources in developing reusable software framework and in pre-sales effort for a number of large-scale government IT outsourcing projects.

The Management is encouraged by the gradual improvement in business demand since the end of the second quarter, especially from the government sector. In particular, the Group-led consortia, supported by world-leading vendors and business partners, have been short-listed for in-depth evaluation by the Hong Kong SAR Government for multi-year build-and-operate tenders opportunities. If those contracts are materialized in the coming few months, although their contributions to the current financial year would not be substantial, the steady and sizeable revenue streams will provide excellent foundation for the Group to accelerate its solution and application services revenues in the coming years.

Besides, in order to streamline the organization and accelerate the blending of the Group's talents in Hong Kong and Mainland China, the Management plans to consolidate the resources within the solutions subsidiaries to create a better economy of scale and to lower operating overheads.

#### *Acquisitions and New Development of the Group*

In 21 June 2001, the Group entered into an agreement to acquire 100% of Accuasset Investments Limited for which its principal asset is 99% stake of IPL Research Limited ("IPL"), the well-established leader in enterprise-class human resources management systems ("HRMS") solutions in Asia. The acquisition was completed in July.

Energized with a professional team of around 50 talents, IPL has proven successes in providing software package solutions to more than 200 enterprise customers in Asia Pacific, as well as large-scale application service providers ("ASP").

The Management believes that the synergy effects between IPL and the rest of the Group are phenomenal. IPL offers a suite of proven HRMS solutions and comprehensive industry specified knowledge for which we can rapidly deploy and apply to the Group's existing customer base. IPL's successful record in developing software for ASP operations could also complement the business being operated by GO-Business. The combined strength will position C&T Group very well to meet the increasing demand from enterprise customers for high quality Operation Resources Management System ("ORMS") solutions. It will also widen sources of software and services revenue of the Group.

Looking forward, the Group will, on top of solid organic growth plan, continue to explore other opportunities to grow business through acquisition. However, the Management fully understands the complexity and risks in growing through merger and acquisition and will endeavour to ensure that any potential acquisition passes the Group's rigorous screening criteria in terms of integration requirements, price and synergy effect among other business units of the Group.