

Management Discussion and Analysis

REVIEW OF PERFORMANCE

The Group ended the year with a total turnover of approximately HK\$417,247,000, an increase of approximately 19% to that of approximately HK\$350,298,000 of 1999, and a profit attributable to shareholders of approximately HK\$18,213,000, a decrease of approximately 47% to that of approximately HK\$34,278,000 of 1999.

DIVIDEND

The directors recommended the payment of a final dividend of HK\$0.5 cent per share in respect of the year ended 31 December 2000 to shareholders whose names appear on the register of members of the Company on Wednesday, 30 May 2001.



Sequent China has developed easily implementable solutions, supplemented by one-stop services, to help local banks better equip themselves in the face of global competition.

REVIEW OF OPERATIONS

Sequent China

Since 1994, Sequent China has specialized in mainframe systems integration facilitating the increasing use of information technology by the banking sector in China. Today we continue to be an engine of that growth. Although the division experienced a slow-down in the year 2000 after several years of robust growth, as has been the case for many other banking systems integrators, Sequent China nevertheless won a number of significant projects during the year. Some of these are discussed below.

Last year, Sequent China was entrusted by the Construction Bank of China (CCB) to implement its Server Consolidation

Program, one of the bank's major projects to equip all its provincial branches with new IBM Numa-Q systems. The Program commenced in 2000 with installations in Zhejiang, Heilongjiang and Jiangxi branches. Implementation works, including the provision of hardware and professional services, will continue into 2001. The project marked the eighth year of collaboration in Sequent China's long-standing relationship with CCB.

Management Discussion and Analysis (continued)

The Bank of China (BOC) has also earmarked further investment in enhancing its Credit Card System, an important profit contributor in its business portfolio. As part of the Enhancement Program, BOC will continue to require its existing NIC/NAP Card Network established by Sequent China to be extended to as many provinces as possible. Another task will be to enable the Network to ultimately accept an extensive range of credit cards issued overseas. In 2000, Sequent China successfully completed the interface between BOC's Network and the Gold Card Settlement Program initiated by the People's Bank of China (PBOC).

Other notable projects in 2000 included the completion of the Core Banking System Enhancement and IC Card Enabling Program for Hunan Postal Savings Bank, which allows the bank's four sub-systems to be interconnected and linked to the Beijing Clearing Center. Sequent China has also provided banking solutions to the Agricultural Development Bank with the establishment of the Core Banking System at two of its branches. A Card Issuing and Acquiring System was also installed at the Shenzhen Development Bank which plans to issue internationally accepted credit cards to its customers by mid-2001.

In view of the more intense competition in the banking and finance sector, in particular after China's accession to the WTO, local banks are now more than ever seeking more sophisticated support from solutions partners. To help local banks better equip themselves in the face of global competition, in particular in the areas of card business and trade finance, Sequent China has developed easily implementable solutions including TopCard and TopTrade, supplementing them with project management, requirement analysis, systems analysis and transition-period management services as part of its total banking solutions.

Sequent China was the first and so far the only BP in China to be granted the authorization to provide after-sales service for IBM products. Over the years, Sequent China has installed over 200 sites in China, and maintenance services for them will form the basis of a stable revenue stream. In addition, given our expertise in the credit-card SI market, heavy investment and all-out efforts have been and are being made to increase the service and applications-development elements of our projects leading to expected higher margins as well as the healthy and steady growth of the operation.



In 2000, Topasia reported considerable growth in the sales of ATMs. The next step is to expand into supplementary systems-integration and technical services.

Topasia

Topasia provides a range of financial peripherals, in a natural progression of TVH's development to tap its success in the banking and finance sector. Based in Shanghai, Topasia operates technical support centers in Beijing, Shanghai, Guangzhou, Nanjing and Hangzhou. This after-sales network was further bolstered last year with the addition of centers in Chengdu, Wuhan, Xian, Changsha and Shenyang.

To explore new room for growth, Topasia formed a joint-venture software company with Zhejiang Jiandar Electronic Company to specialize in Call Center and CRM systems software development. The joint venture, Hangzhou Topasia Technology Co., Ltd. constitutes a research & development team with extensive experience in telecoms projects in China.

In 2000, Topasia reported considerable growth in the sales of ATMs. More than 350 ATMs were installed during the year, representing a growth rate in excess of 40%. Topasia is an appointed provider of self-service products to CCB and China Merchants Banks, and was selected by BOC as a designated supplier. Last year, Topasia was awarded a contract for 100 ATMs by BOC headquarters.

The year 2000 also saw Topasia expanding into the provision of supplementary systems-integration services in collaboration with EMC, the world's largest independent provider of enterprise intelligence storage systems and software. This strategic alliance provides solutions targeted at mainframes and open systems, and has won contracts from the Shanghai Securities Exchange, Jiangsu Mobile Communications, Jiangsu Telecom, and the Bank of Shanghai.

A new area of potential and active development for Topasia is technical services. In addition to building a stronger team, Topasia has also strengthened its ties with IBM, EMC, NCR and Avaya (of Lucent Technologies). In anticipation of a significant demand surge, Topasia plans to grow this operation, as an independent business line, into a leading professional services provider in China.

Management Discussion and Analysis (continued)

TopSoft

TopSoft continues to concentrate on the banking, e-commerce and public sectors with a business focus that goes beyond the building of e-business operations and online marketplaces. As a technology enabler, TopSoft partners with its clients throughout the entire transformation process to make the Internet work for them, ensuring the successful merging of a traditional business, the integration of their strategies, and daily operations and philosophy with the Internet.

As mentioned in the Chairman's Statement, the division suffered to some extent as a result of the sudden arrival and departure of the 'dotcom' phenomenon. When the phenomenon began in Hong Kong at the beginning of 2000, we determined to become a leading e-commerce enabler in the territory. Thanks to considerable effort and investment, the company achieved that target within a relatively short period of time. Unfortunately, with the abrupt slow-down in the e-commerce market in the latter part of the year, the company found this effort and investment to be not entirely justified. Despite these difficulties, TopSoft achieved notable results in a number of areas last year.

In 2000, TopSoft implemented Hong Kong's first bank-hosted online credit-card payment gateway and the i-Mall for Dah Sing Bank, and extended the Global Banking System of the Bank of East Asia to all its branches in Canada. The company is now also acting as solutions partner for Card Alliance to help them streamline the maintenance of credit-card systems.

In e-commerce enabling, TopSoft has captured a considerable share of the enterprise e-business market with its pool of redeemable technology and business models. The TopSoft implementation portfolio includes the e-shop of Lane Crawford, eNet, a vertical B2B2C marketplace for the IT industry in China, i-Med2000, a B2B medical portal with aggregate buy functions, and iLogistics.

One of the most encouraging developments over the past year was TopSoft's geographical expansion into other parts of the Asia-Pacific region. This follows on from its participation in projects including: eWEB21, a multi-level marketing platform being rolled out in Korea, Japan, Australia, Europe and China; my2020 for an e-procurement ASP in Malaysia; and SpotLight, the largest department store in Melbourne, Australia.



TopSoft has steered itself through a drastically changing digital landscape, and is now set to gather momentum again for a new phase in business development in the coming year.

In the public sector, TopSoft continues to be the leading services provider in the area of Component Based Development (CBD) methodology. CBD methodology was first introduced to the Information Technology Services Department (ITSD) of the Hong Kong SAR Government in 1999 and, to date, we continue to provide the ITSD with enabling software technology and training courseware. We have further developed a Component Management and Technical Architecture for the Hong Kong Police Force to smooth out the adoption process.

As noted in the Group's previous annual report, TopSoft will actively pursue business opportunities in data mining. Last year, the company implemented a pan-Asia Marketing Campaign Management System and the Telesales Automation project for Federal Express, as part of the client's Customer Relationship Management (CRM) initiatives.

During the year 2000, the company steered itself through a drastically changing digital landscape, and is now set to gather momentum again for a new phase in business development in the coming year. Business development will be geared towards the 'productization' and 'componentization' of our knowledge in e-business enabling, in particular as regards payment gateways and e-business model support. As regards our markets, we will utilize our China-specific knowledge and world-leading e-business platforms, such as that of Intershop, to localize and globalize our solutions, and to help us establish a foothold in new markets in Asia.

ADT

Advanced Digital Technology (ADT), in which TVH holds a 55% interest, is a dominant force driving the trend toward electronic banking in China. With a dedicated focus on the banking and finance sector, ADT's business roll-outs will be technology-oriented and geared to network products and proprietary software.

In the year ahead, ADT will be working on a network transformation and consolidation project for the Industrial and Commerce Bank of China (ICBC) which involves the sale of new-generation terminal systems. ADT will also work with CCB on the transformation of its core application systems, and the development and construction of new front-end and back-end systems.

ADT's product range will also be broadened by the addition of a new financial front-end system, a personal foreign-exchange trading system, and a new Call Center system as well as NOVA, a new-generation Web-based development platform. ADT's niche market is currently found in China's northern provinces, but the company intends to extend its reach aggressively to the southern region of China in the near future.



With a dedicated focus on the banking and finance sector, ADT is a dominant force driving the trend toward electronic banking in China.

Management Discussion and Analysis (continued)



DMX Technologies has been entrusted with a number of iDC and MAN projects, and is planning to introduce a new DDN network into the Hong Kong and China

DMX Technologies

DMX Technologies, in which TVH has a 51% stake, is a strategic business unit and a vehicle facilitating TVH's re-entry into the telecommunications arena. The company, formerly called Skynet Consultants Company Limited, is a network solutions provider operating in Hong Kong, China and certain other countries in Asia. It specializes in broadband network infrastructures, e-commerce enabling solutions and information security, serving telecommunications and service providers as well as individual business enterprises.

Metropolitan Area Networks (MAN) and Internet Data Center (iDC) solutions have been the major focus for DMX Technologies in the year 2001. During the year, DMX Technologies was awarded

MAN contracts from Xian, Shunde and Fuzhou PTTs. All three of these networks will provide state-of-the-art broadband IP services to both corporate and domestic users.

DMX Technologies has also implemented a number of iDC solutions in Hong Kong and China. One major installation is Sky Datamann, one of the most sophisticated Internet Data Centers in Hong Kong providing an array of value-added services such as bandwidth guarantee, server load-balancing, caching and content distribution services in addition to the conventional facilities management and co-location services offered by most iDCs. Sky Datamann will be replicating this business model in China, Taiwan and other Asian regions. Other iDC customers last year included Hutchison Global Crossing, Diyixian, and renren Media among others.

The China market will continue to be the main focus for MAN and iDC solutions in 2001. It is estimated that over 100 MAN projects will be implemented on behalf of China Telecom during 2001. In addition, several telephone companies, including the current competitor carriers are building iDCs in China.

To complement these, DMX will introduce the new Broadband DDN network solution into the Hong Kong and China markets as a unified network infrastructure for voice, leased circuit, FR, ATM and IP services. This network infrastructure will allow telecoms companies, especially the new carriers, to reduce capital and operations expenditure as well as accelerate time to market.

An additional business strategy for DMX is geographical expansion. The company is now in the process of setting up offices in Singapore, Malaysia, and various cities in China in order to extend its business and services to new markets.



One project is to bring China's 90 million cable-TV subscribers into seamless connection with satellite broadband transmissions through ChinaCastTV.

ChinaCast

ChinaCast Technology achieved several noteworthy milestones in 2000, including the introduction of Hughes Network Systems, Intel Capital and SUNeVision as strategic shareholders and partners, and the inauguration of the Turbo163 broadband service in China in January 2001.

ChinaCast Technology is the technology and management partner of ChinaCast Co, Ltd, who joined hands with China Telecom to launch Turbo 163, the first nationwide satellite-based broadband Internet service in China. Targeting a niche segment of the Internet market with a niche service, ChinaCast's customer portfolio already includes Ingram Micro, IBM, Netease, and the Bureau of Agriculture and Development, Heilongjiang. An active network roll-out is planned for 2001, with a target of 20,000 DirecPC® broadcast sites to be established across China.

ChinaCast will also seek to leverage the unique advantages of satellite transmission in the provision of distance-learning programs to the remoter parts of China. A co-operative agreement has been concluded with the People's Government of the Tibet Autonomous Region for the development of multi-media educational content for students living in the vast regions of Western China. Also under development is a distance-learning, interactive MBA program in collaboration with Guanghua Management School, Peking University.

Going forward, ChinaCast will continue to work with HNS and other world-leading partners to embrace the latest satellite technologies which can advance communications services throughout China. One project is to bring China's 90 million cable-TV subscribers into seamless connection with satellite broadband transmissions through ChinaCastTV, a solution designed to enable cable-TV networks to provide such value-added services as multi-media distance learning and financial information. The solution will also incorporate video-on-demand and e-commerce functions, both essential elements of the modern digitalized home.

TVH has a 19.9% interest in ChinaCast Technology. Through our investment in this pioneering satellite operation, we aim to provide our shareholders with an excellent opportunity of participating in the exciting boom in Internet applications and services in China.

Management Discussion and Analysis (continued)

LIQUIDITY AND FINANCIAL RESOURCES

Net assets

As at 31 December 2000, the Group recorded total assets of approximately HK\$473,285,000 which were financed by liabilities of approximately HK\$131,703,000 and equity of approximately HK\$337,042,000. The Group's net asset value as at 31 December 2000 increased by approximately 179% to approximately HK\$337,042,000 as compared to approximately HK\$120,607,000 as at 31 December 1999.

Liquidity

The Group had total cash and bank balances of approximately HK\$146,454,000 as at 31 December 2000 (1999: approximately HK\$54,080,000). After deducting bank loans and overdrafts of approximately HK\$12,498,000 (1999: approximately HK\$21,673,000), the Group recorded a net cash balance of approximately HK\$133,956,000 as compared to that of approximately HK\$32,407,000 as at 31 December 1999. As at 31 December 2000, the Group had both improved the working capital as to the current ratio of 2.91 (1999:1.65) and as to the bank and other borrowings to equity ratio of 0.04 (1999:0.19) with equity being defined as the total of capital and reserves.

Charges on assets

At 31 December 2000, fixed deposits of approximately HK\$15,885,000 were pledged to banks to secure banking facilities granted.

Treasury policies

The Group generally finances its operations with internally generated resources and banking and credit facilities provided by banks in Hong Kong. Borrowing methods used by the Group mainly include trust receipt loans and overdrafts facilities. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars and United States dollars ("US dollars").

Contingent liabilities

At 31 December 2000, the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$12.5 million and guarantees in respect of performance bonds in favour of contract customers amounted to approximately HK\$0.1 million.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is minimal as long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

APPLICATION OF PROCEEDS

The Company raised net proceeds of approximately HK\$72 million through a placing and new issue in June 1999 (the "placing and new issue"). Further to the interim report of the Company dated 9 September 2000, the Group has used approximately HK\$4 million for the purposes of research and development in IT business; approximately HK\$0.8 million for the development of the Group's own application software products; and approximately HK\$10 million for the development of data communications business after 30 June 2000. As at the date of this report, the Group has utilised a total of approximately HK\$72 million of the net proceeds raised through the placing and new issue.

In January 2000, the Company received net proceeds of approximately HK\$116 million through another placement to institutional and professional investors (the "second placement"). Further to the interim report of the Company dated 9 September 2000, the Group has used HK\$41 million for the expansion of internet business. As at the date of this report, the Group has utilised a total of approximately HK\$116 million of the net proceeds raised through the second placement.

In September 2000, the Company received net proceeds of approximately HK\$108 million through a further placement to institutional and professional investors (the "third placement"). As at the date of this report, the Group has utilised approximately HK\$40 million for expansion of the systems integration business in China; approximately HK\$4 million for the expansion of the software training business; and approximately HK\$58 million as working capital of the Group.

The remaining proceeds of the third placement are now placed on short term deposits with banks.