

CHAIRMAN'S REPORT

The financial performance of the Group for the first six months of 2001 reflects a challenging operating environment and continuous investment in the development of application software and related services offerings. While the Group managed to increase revenue to HK\$308.3 million (2000: HK\$168.0 million) during the reporting period, the net profit attributable to shareholders decreased to HK\$2.2 million (2000: HK\$9.3 million).

The domestic demand in the Mainland China remains strong. The Group managed to grow its network and systems integration business steadily with continuous flow of repeat businesses from existing loyal customers across telecommunications and financial services industry sectors. However, the Group had to manage challenges in compressing the related sales and operation overheads and increasing value added services content in order to improve gross profit margin, while facing the continuing fierce competition in the market. On the other hand, the rapidly slow-down in e-commerce related IT expenditure among corporate customers in Hong Kong have resulted in lower-than-expected revenue for the Group's e-business enabling services.

On top of its core systems integration business, the Group continued its investments in new subsidiaries in expanding the application software and related services portfolio. As these investments typically take time to get materialized, their contributions remain small in the period under review. However, the Management is confident that, as reflected by the encouraging milestones achieved so far, these investments will start to make significant contribution to the Group's profit by year 2002.

Prospect

The second half of the financial year will continue to be challenging. While encouraged by the strong momentum in China and the increasing opportunities from the government sector, the Management remains cautious on the business environment, especially in the commercial sector in Hong Kong.

However, there are positive indications that the challenges would get to a lesser extent. For example, average staff cost of IT industry in Hong Kong is stabilized and dropping slightly when compared with last year; the cut-throat competition from dot-com companies who transformed themselves to offer software and other related services are gradually diminishing as many of them are running out of business; there are also increasing number of large-scale IT outsourcing projects being tendered by the Hong Kong SAR Government. In addition, many of the enterprise customers in China, especially those in the telecommunications and financial services sectors, are rapidly adopting a much higher appreciation in their service level commitment and willing to pay more for high-quality software and IT services.

The Management believes the Group is on its right track executing the strategy to transform into a full-service provider. Although the investments in new businesses are impacting the earnings for the period under review, they will create strong returns to our shareholders in long term.

Appreciation

The Board and the Management thank the staff and shareholders of the Group for their dedication and support to the Company.

Ng Cheung Shing
Chairman

Hong Kong, 5 September 2001