BUSINESS REVIEW

Overview

The reporting period is the Group's year of business transformation from a traditional hardware-oriented systems integrator to a software and operation outsourcing oriented solutions and services provider. As a result, the gross profit margin has been improved to 22.6% when compared with 15.8% for the same period in 2001. Also due to the revolutionary focused efforts, the Group has secured more than HK$500 million worth of software and related services orders on hand at the date of this report. Moreover the Group has been awarded by the Government of Hong Kong Special Administrative Region ("HKSAR Government") a five-year licence to provide front-end Government Electronic Trading Services ("GETS") for the trading community to submit their import and export declaration and dutiable commodities permits.

During the process of transformation, the Group has spent certain amount of marketing and pre-sales expenses in building up these new orders and businesses mentioned above. However, given the nature that software and service delivery will spread over a longer period of time, revenue from most of the newly signed software and solutions projects have not yet been recognised and reflected in year 2002. On the other hand, the significant slowdown in the telecommunications industry worldwide, echoed with the lengthy reorganisation of China telecommunications industry has adversely impacted the Group's System Integration business in the reporting year. Furthermore, due to the irrational competitions, the Group has been prudently turning away low-margin hardware-intensive and high collection risks projects. Consequently, the Group's consolidated revenue for the reporting period ended 31 December 2002 fell 55.8% to HK$228.2 million (2001: HK$515.9 million). Net loss attributable to shareholders narrowed down by 38.2% to HK$39.6 million (2001: HK$64.2 million, as restated). Loss per share is HK$0.145 (2001: HK$0.241).

Despite the unsatisfactory results, the Group has continued to maintain stable financial positions without any long-term debt committed and with approximately HK$200 million cash on hand as at 31 December 2002. Besides, the trade receivables for the year ended 2002 decreased to HK$47.67 million from HK$81.76 million in the previous year.

In 2002, Management of the Group has also increased its efforts to tighten the operating expenditures. Substantial measures include closing down of the offices in Chengdu and Shenyang in China; consolidation of the operation of the previous jointly-controlled entity with Hutchison Whampoa Limited (one of the substantial shareholders of the Group), formerly known as HutchTech Resources Limited, with the Group's software operation in Shenzhen, rightsizing the Group's solution operation in Singapore in response to the reduction of market demands, and relocation of the Hong Kong office of IPL Research Limited ("IPL", a subsidiary acquired in year 2001 specialised in human resource management software) to share office premises of the Group. Although these measures have incurred additional expenses during the reporting year, they have effectively leaned the Group's operational structure and will increase the Group's competitiveness in the long run.

Detail Discussions

In year 2002, the Group has focused its pre-sales and marketing efforts in expanding businesses with service-intensive and revenue-recurring natures. As a result, the Group managed to win several large-scale multi-years, software and services outsourcing IT projects from the commercial and the government sectors. These include a HK$146 million worth of contract from the Land Registry of the Hong Kong Special Administrative Region to build and support for 8 years the Integrated Registration Information System; and a HK$368 million, worth of contract from the Water Supplies Department of the HKSAR Government to build and support a new integrated customer care and billing system in the coming 12 years. Coupled with other major government projects on-hand, the Group has become one of the major IT outsourcing service providers in Hong Kong. Those major wins provide the Group not only a stable and recurring income stream in the coming years, but also a recognised market position to capture other large-scale IT service outsourcing opportunities in the future.

In March 2003, the Group has been awarded a five-year (with an option to extend for another two years by the HKSAR Government) GETS licence, from the HKSAR Government. Together with the Electronic Tendering System ("ETS") that the Group is currently operating for the HKSAR Government, the Group is now positioned as a major government-to-business electronic services provider. Both ETS and GETS would generate stable and recurring transaction and subscription based revenue for the Group. In addition, the increased economy of scale in providing these application services will improve the operation efficiency of the Group. The critical mass and the leadership position will also facilitate the Group to capture other government-to-business electronic service opportunities related to general trading and logistic community in the future.

Despite the decreasing demand on building internet and related network infrastructure from the telecommunications sector in China, the demands on high quality network maintenance services and implementation of new value-added application software are increasing. In addition, the Group has maintained a strong momentum in serving its existing major install base with stable and repeated businesses and in developing new enterprise customers especially in insurance and automobile manufacturing industries. The Group's revenue generated from the financial services and manufacturing sectors increased to 33.7% and 9.1% from 16.2% and 6.0%, respectively, in China.

Leveraging the Group's experiences in providing billing and customer care solutions for telecommunications service providers and the established client references, the Group has successfully replicated its success to the fast growing public utility sector. Since the last annual report, the Group has secured a number of major customers in gas and water supplies sectors such as the Water Supplies Department of the HKSAR Government which is one of the largest public utility organisations in Asia, Hong Kong and China Gas Company Limited which is rapidly expanding its business through various joint-ventures in major cities of China, and Guangzhou Water Supply Company which is one of the largest water supply companies in China. The Group would continue to dedicate more resources to further expand this market in the region especially in China in the coming years.

The acquisition of IPL is proven to be successful. IPL had been smoothly integrated into the Group with no change in the management team and increases in profit contributions to the Group in 2002. Despite the challenging business environment, IPL has secured a substantial number of new customers including large and multinational corporations in Hong Kong and China. The enlarged install base has been providing IPL with steady recurring income from maintenance and system enhancement services.

Detail Discussions (continued)

Maxfair Technology Holdings Limited and its subsidiaries (collectively referred as "Maxfair"), the Group's distribution arm, which distributes digital media products, performed well during the year and consistently contributed profits to the Group. Despite the weak consumer spending in both Hong Kong and Taiwan, Maxfair managed to report increases in revenue. The subsidiary in Taiwan has managed to contribute moderate profits in its first full year of operation. Management will continue to look for opportunities in replicating the Maxfair's proven model and extend its geographical coverage of the distribution network in Asia.

PROSPECT

Given the uncertainty of the global economy and the continuous sluggish in IT industry in general, the outlook of the Group in the coming years is difficult to accurately forecast. Nevertheless, the Management believes that the Group will gradually recover from the adverse volatile business environments of the past two years. The business transformation process has turned the Group into a stronger organisation with improved revenue mix.

The substantial software and services contracts on-hand and the repeated orders and recurring maintenance income from existing install base will provide solid income to the Group in the coming years. The Group's transaction and subscription based revenues will also be substantially increased after the GETS's service is launched in 2004. Furthermore, with the repeated successes of the Group in the public utility sector and human resource management software market, Management is anticipating an increase in revenue and gross margin generated from the repeated sales of the Group's software products. Coupled with the consistently stable contribution from the Group's distribution business, the Management envisages that the profitability of the Group will become more stable and predictable and its effects will emerge considerably in the coming financial years.

Last but not the least, given the current uncertainty of the general business environment, the relatively strong financial position of the Group will benefit the Group to expand its business coverage by acquisitions when the right opportunities arrive.

APPRECIATION

On behalf of the Board and the Management, I would like to express gratitude to all the staff of the Group and the shareholders of the Company for their supports.

Ng Cheung Shing
Chairman and Chief Executive Officer

Hong Kong
8 April 2003