

Management Discussion and Analysis

The board of directors of the Company is pleased to present the unaudited consolidated interim results of the Group for the six months ended 30 June 2003.

Results

The Group's results for the six months ended 30 June 2003 showed significant improvement over the same period last year. Turnover increased to HK\$202.7 million from HK\$162.7 million, operating profit rose to HK\$14.8 million from HK\$6.4 million and net profit attributable to shareholders jumped to HK\$8.1 million from HK\$3.2 million, representing increases of 25%, 131% and 153% respectively. All these improvements were entirely attributable to the strong growth of the Group's information technology business segment.

The board of directors has resolved not to declare any interim dividend for six months ended 30 June 2003.

Business Review

Information Technology

The information technology business grew rapidly during the first half of 2003. Segment revenue and results were HK\$107.5 million and HK\$26.3 million respectively, representing increases of HK\$44.6 million or 71% and HK\$19.4 million or 281% over the corresponding period last year. The information technology business became the main source of revenue and profit for the Group.

The Group continued to do well in its two established business areas of (a) providing both hardware and software solutions to students, schools and other education entities in Beijing, and (b) providing internet and communications services to enterprises in Beijing.

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In line with its stated strategy, the Group made three strategic acquisitions during the first half of the year.

In January 2003 the Group acquired a 60% interest in Wisdom Elite Holdings Limited, a solution and service provider to the Labour and Social Security and Tax authorities in China.

In April 2003 the Group acquired a 51% interest in Astoria Innovations Limited, who is principally engaged in the development and sale of re-employment and e-government software systems to government authorities.

In May 2003 the Group acquired a 100% interest in Business Net Limited whose sole asset is its interest in 38% of the registered capital of Beijing Municipal Administration & Communications Card Co., Ltd. ("BMAC"). BMAC is a company authorised by the Beijing Municipal government authorities and is principally engaged in (a) the production and issuance of contactless multipurpose electronic payment cards, namely "Yikatong"; and (b) the investment, operation and management of the "Yikatong" automated collection system for the public transportation network in Beijing, including but not limited to buses, taxis, subway and light railway. This electronic payment and settlement system may be extended to cover other retail businesses.

Other Businesses

The outbreak of SARS in China and Southeast Asia affected the performance of the restaurant business. The segment results showed a negative contribution of HK\$5.9 million compared with a positive contribution of HK\$2.3 million for the same period last year. The outlook for the second half of the year is brighter with business already recovering to the pre-SARS levels.

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The property investment business remained stable during the period.

Future Plans and Prospects

The Group expects that it will do well in the education sector in the second half of the year. The Group has secured a further system integration contract, for both software and hardware, for approximately 400 schools (2002: 300 schools, 2001: 200 schools) in Beijing to be completed by the end of 2003. To date, most of the Group's education business has been carried out in Beijing. However, the Group plans to promote its products and services to other cities and provinces in China.

Since the acquisition of Wisdom Elite Holdings Limited, the Group has made significant progress in the social security sector, especially in the development and sale of management information systems for retirement, industrial accident and unemployment social insurances. The Group expects a significant contribution from this sector in the near future.

The acquisition of a 38% interest (the single largest interest) in the "Yikatong" automated collection system is of long term strategic importance to the Group. It is expected that a significant portion of the system construction and conversion work will be completed and ready for use by the end of 2004, particularly for buses and taxis, currently the main forms of public transport in Beijing. The use of contactless multipurpose electronic payment cards has been very successfully deployed and received in many Asian countries and cities including Hong Kong, South Korea, Shanghai, Taiwan and Singapore. The Group is confident that the same will be true for Beijing in future.

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Liquidity and Financial Resources

During the six months ended 30 June 2003, the Group's net asset value increased by 14% to HK\$0.92 per share. The Group's total assets of HK\$751.2 million as at 30 June 2003 were financed by total liabilities of HK\$256.2 million, minority interests of HK\$41.4 million and shareholders' equity of HK\$453.6 million.

As at balance sheet date, the Group's cash and bank balances maintained at HK\$90 million, while total financial indebtedness was HK\$152.5 million. Out of this financial indebtedness, HK\$99.2 million will mature within one year. Certain Group's properties with an aggregate carrying value of HK\$69.6 million were pledged as securities for the banking facilities. The Group had limited exposure to exchange fluctuations and over 90% of its bank borrowings and bank balances were denominated in Renminbi and United States Dollars.

As at 30 June 2003, the current ratio (current assets over current liabilities) of the Group was 201% and the gearing ratio, calculated by dividing the financial indebtedness net of cash and bank balances over shareholders' equity, was 14%.

During the period under review, the Group had operating profit before working capital changes of HK\$33.1 million and cash generated from operations of HK\$11.5 million. In view of the cash generated from the Group's operations and the available banking facilities, the directors believe that the Group has adequate cash resources for working capital requirements and its capital expenditure commitments.

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Capital Structure

During the six months ended 30 June 2003, the Company totalling issued 47,722,400 new shares of HK\$1 each at par as part of the consideration for the acquisition of certain subsidiaries.

Employees

As at 30 June 2003, the Group employed approximately 1,100 full time employees, of which 14 employees are employed in Hong Kong. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance and as well as individuals' performance. As at 30 June 2003, the Company had 35,100,000 share options outstanding under the share option scheme.

Appreciation

The board of directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the period.

By Order of the Board

XIONG DA XIN

Chairman

Hong Kong

8 September 2003