

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Overall Performance

The Group's unaudited consolidated loss after tax and minority interests for the period ended 30 June 2003 was substantially narrowed by 99% to approximately HK\$0.2 million (2002: HK\$33.4 million). The substantial improvement was due to the decrease in loss of software solutions and services business of approximately HK\$11 million and the disposal of loss making electronic components business in 2002 which recorded loss of approximately HK\$19 million in the last period.

The Group's turnover for the period ended 30 June 2003 decreased by 39% to approximately HK\$111.5 million (2002: HK\$182.9 million). The decrease in turnover was mainly due to the exclusion of turnover in the electronic components business of approximately HK\$48.3 million as the business was disposed in 2002 and the decrease in software solutions and services business. The Group's gross profit decreased by 39% to approximately HK\$19.5 million (2002: HK\$32.1 million). The decrease in gross profit was mainly due to the decrease in electronic products business by approximately HK\$10.4 million.

Operating Review and Prospects

(A) SOFTWARE SOLUTIONS AND SERVICES BUSINESS (CONTINUING OPERATIONS)

The turnover of the software solutions and services business for the period decreased by 33% to approximately HK\$26.9 million (2002: HK\$40.2 million) and the segmental loss was significantly narrowed by 59% to approximately HK\$5.1 million (2002: HK\$12.5 million).

The software solutions and services business was still facing fierce competition in the PRC market. Although the turnover decreased by 33% in current period, the gross profit margin in this sector improved by approximately 6 margin points to approximately 37%. The increase in gross profit margin in current period was mainly due to tight cost control. On the other hand, the expenditure was substantially reduced by approximately HK\$13 million which included cutting headcounts; less spending in marketing expenses and streamline the organization structure. Through our efforts in the past few years, we have established strong reputation in the banking and government sectors for our e-finance systems, information security systems, geographic information systems and government information systems. Following to the completion of acquisition of the distribution of information products business on 1 July 2003, it is believed that the Group can now deliver a total solution package to satisfy the customers' needs.

Operating Review and Prospects *(Continued)*

(B) ELECTRONIC PRODUCTS BUSINESS (DISCONTINUING OPERATIONS)

The turnover of the electronic products business for the period decreased by 10% to approximately HK\$84.6 million (2002: HK\$94.4 million) and the segmental profit decreased by 33% to approximately HK\$1.5 million (2002: HK\$2.3 million).

The result of this sector was affected by the slowing down of demand of electronic products and increase in cost of sales. As disclosed in note 4(a) to the unaudited condensed consolidated interim financial statements above, the Company entered into a conditional agreement to dispose the electronic products business. Following to the disposal of this business, the Company will now concentrate the resources to focus on its information technology business.

(C) ELECTRONIC COMPONENTS BUSINESS (DISCONTINUED OPERATIONS)

As disclosed in note 4(b) to the unaudited condensed consolidated interim financial statements above, the Company has completed the disposal of electronic components business on 28 June 2002 and therefore the results of this sector were not included in the current period.

MAJOR ACQUISITION

As set out in notes 13(a) and 14(a) to the unaudited condensed consolidated interim financial statements, the Company entered into the S&P Agreement with FHK on 19 March 2003. Pursuant to the S&P Agreement, the Company acquired the entire interests in HK Century and PRC Century from FHK. The acquisition was completed on 1 July 2003.

The principal activities of HK Century and PRC Century are distribution of information products in Hong Kong and the PRC and the products distributed include, among other things, servers, workstations and networking products of various international brand names.

Capitalised on the expertise of the software solutions and services business, the Group will be able to further expand the business of HK Century and PRC Century by offering its self-developed software applications to the clients in order to provide a total solution package. On the other hand, the vast distribution network and channels of HK Century and PRC Century will magnify the opportunities of software solutions and services business to market its software products and solicit potential customers.