

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

The Group reported an unaudited profit of HK\$8.3 million for the second quarter of FY04 which offset the unaudited loss of HK\$5.6 million for the first quarter, bringing the unaudited profit for the 6 months ended 30th September, 2003 to HK\$2.7 million (FY03: HK\$18.9 million). Total revenue for the 3 months and 6 months ended 30th September, 2003 was HK\$204.1 million and HK\$446.7 million respectively, down from HK\$242.6 million for the first quarter and HK\$523.1 million for the corresponding 6-month period in FY03. The decrease was primarily attributed to lower sales in computer products as a result of reduced IT spending and the adverse impact from the SARS outbreak. In terms of revenue mix, service offering and outsourcing business accounted for 38.8% of the total revenue for the six months ended 30th September, 2003, up from 29.2% of the comparable period in FY03 and representing an increase of HK\$20.3 million. The Group won a total of HK\$150 million new contracts during the second quarter, and maintained a healthy balance sheet with net cash balance of HK\$216.9 million at the end of the interim period. The gearing ratio was 4.2%.

The Group continued to streamline its operation and controlled costs throughout the organization. Sales and technical support costs, and distribution and administration costs (“operating expenses”) reduced by 7.9% or HK\$5.4 million as compared to the first quarter as a result of headcount reduction and lower discretionary expenses.

We continued to derive income from Data Systems Consulting Company Limited (DSC), the Group’s listed investment in Taiwan. Included in the other income are dividend income from DSC and a gain from partial disposal of DSC shares amounting to HK\$10 million.

Subsequent Event

Subsequent to 30th September, 2003, we further restructured the operations of the company and reduced our workforce by 10%. The action was across all divisions. As a result, we have incurred a one-time restructuring cost of HK\$6.9 million in the third quarter of the current financial year. This will further decrease the operating expenses for the rest of the financial year.

Prospects

We foresee more challenges ahead and are re-aligning our business strategy to focus on key customers and sizeable projects that provide higher returns. We have enhanced our existing direct account sales model to provide one-stop-shop services to our customers and better management for large accounts. At the same time, it will allow us to better focus on large IT projects. We anticipate these changes will help improve our operating margin and grow our business in the longer term.

We will continue to focus on long-term government or quasi-government contracts that are relatively less affected by economic downturn. This will enable us to derive more predictable recurring revenues including services income in the future. In October 2003, we were awarded a 36-month security bulk contract from the Hospital Authority and a 24-month server bulk contract from the government. Most contracts typically come with renewal maintenance services annually. Some contracts have been renewed for more than 10 years and even exceeded the original contract value.

We will continue to monitor our operational efficiency and productivity, and align the cost structure with the revenue. We believe we are on the right track to achieve our goals.

Financial Resources and Liquidity

As at 30th September, 2003, the Group's total assets of HK\$705.5 million were financed by current liabilities of HK\$252.3 million, deferred tax of HK\$11.7 million, minority interests of HK\$5.7 million and shareholders' equity of HK\$435.8 million. The Group had a working capital ratio of approximately 2.12:1.

As at 30th September, 2003, the Group had an aggregate composite banking facilities from banks of approximately HK\$428 million of which HK\$43 million was utilized (30th September, 2002: HK\$53 million). The Group's gearing ratio was 4.2% (30th September, 2002: 6.6%) as at 30th September, 2003.

There was no charge on the Group's assets as at 30th September, 2003.

Treasury Policies

The Group generally financed its operations with internally generated resources and credit facilities provided by banks in Hong Kong. Bank facilities used by the Group include trust receipt loans, overdrafts and term loans. The interest rates of most of these are fixed by reference to the respective countries' Interbank Offer Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars and United States dollars ("US dollars").

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group will continue to be minimal as long as the policy of the Government of HKSAR to link the Hong Kong dollars to the US dollars remains in effect. No material exposure to fluctuations in exchange rates was found, and therefore no related hedging financial instrument was applied during the six-month period ended 30th September, 2003.

Contingent Liabilities

Corporate guarantee to banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK\$96 million. The performance bond issued by the Group to customers as security of contract was approximately HK\$23 million.

Employee and Remuneration Policies

As at 30th September, 2003, the Group, excluding its associates, employed 1,006 permanent and contract staff in Hong Kong, Macau, Taiwan and Thailand. The Group remunerates its employees based on their performance, work experience and the prevailing market conditions. Bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance, medical coverage and a share option scheme.